Tuesday, February 5, 2019
Board Meeting Agenda
Board Room 2
2nd Floor Conference Center
9960 Mayland Drive
Henrico, VA 23233
Phone: (804) 367-8505

10 a.m. Call to Order – **Susan Quaintance Ferguson, CPA, Chair**
Security Briefing – **Patti Hambright, Administrative Assistant**
Determination of Quorum
Approval of February 5, 2019, Agenda
Approval of Consent Agenda:

- Approval of January 8, 2019, Board meeting minutes
- Consent Orders:
  - 2018-432-004U (Brown and Saunders)
  - 2018-562-121E (Brown and Saunders)

Public comment period*

10:15 a.m. 1. Third Party Updates

- Peer Review Oversight Committee (PROC) update – **Nadia Rogers, CPA, PROC Chair**
  - Delinquent peer review discussion and decision
- !mpactmakers – Exam/Licensing/Enforcement project health assessment report - **Kathy Czerwonka, Senior Consultant and Scott Hammer, Principal Consultant, !mpactmakers**
- MicroPact Exam/Licensing/Enforcement software demonstration – **Rajesh Gaikwad, Project Manager and Alice Weng, Business Analyst, MicroPact**

11:30 a.m. 2. Committee/NASBA Updates – Susan Quaintance Ferguson, CPA, Chair

- NASBA Committee Updates, as available
- NASBA Board of Directors – Stephanie S. Saunders, CPA

11:40 a.m. 3. General updates

- Executive Director's Report – **Nancy Glynn, CPA, Executive Director**
- December 2018 Board Report **– Mary Charity, Deputy Director for Operations**
- December 2018 Financial Report – **Renai Reinholtz, Deputy Director for Finance and Administration**
- Fiscal Year 2018 Draft Financial Statements-– **Renai Reinholtz, Deputy Director for Finance and Administration**

12:00 p.m. 4. Board Discussion Topics

- Regulatory/legislative updates – **Nancy Glynn, CPA, Executive Director**

- Fiscal year end processing timelines
- Memorandum of Understanding for Enforcement volunteer
- CPE guidelines survey results and discussion
- Active – CPE Exempt status

12:30 p.m. Recess for Board lunch

1:00 p.m. 5. Board Discussion Topics, continued if necessary

2:00 p.m. 6. Additional Items for Discussion

- Carry over items/potential future topics
  - Publication of VBOA disciplinary actions (To be determined)
  - Trust Fund Reserve Policy (To be determined)
  - Virginia-Specific Ethics Course (On-going)
  - Required coursework for CPA examination/licensure
- Sign Conflict of Interest forms
- Sign Travel Expense vouchers
- Future meeting dates
  - April 23, 2019 (alternative date to consider April 30, 2019)
  - May 21, 2019

2:15 p.m. 7. Closed Session

- Enforcement – **Amanda E. M. Blount, Enforcement Director** Status of open cases
- Legal Update

2:30 8. Additional public comment*

2:40 9. Closed Session

- Case No. 2014-D0026 (Bradshaw)

3:00 p.m. Adjournment

***Five-minute public comment, per person, on those items not included on the agenda.**

Persons desiring to attend the meeting and requiring special accommodations/interpretive services should contact the VBOA office at (804) 367-8505 at least five days prior to the meeting so that suitable arrangements can be made for an appropriate accommodation. The VBOA fully complies with the Americans with Disabilities Act.

VIRGINIA BOARD OF ACCOUNTANCY

Board Meeting
January 8, 2019
Draft/Unapproved minutes

The Virginia Board of Accountancy met on Tuesday, January 8, 2019, in Board Room #4 of the Perimeter Center, 9960 Mayland Drive, Henrico, Virginia 23233.

MEMBERS PRESENT:	Susan Quaintance Ferguson, CPA, Chair D. Brian Carson, CPA, CGMA, Vice Chair Matthew P. Bosher, Esq. W. Barclay Bradshaw, CPA William R. Brown, CPA Stephanie S. Saunders, CPA Laurie A. Warwick, CPA
LEGAL COUNSEL:	Robert Drewry, Assistant Attorney General, Office of the Attorney General
STAFF PRESENT:	Nancy Glynn**,** CPA**,** Executive Director Mary Charity, Deputy Director for Operations Renai Reinholtz, Deputy Director for Finance and Administration Amanda E. M. Blount, Enforcement Director Kelli Anderson, Communications Manager Patti Hambright, CPE Coordinator and Administrative Assistant Rebekah Allen, Information and Policy Advisor
MEMBERS OF THE PUBLIC PRESENT:	Tyrone Dickerson, CPA, former Board member and Chair Maureen Dingus, CAE, Chief Operating Officer, Virginia Society of Certified Public Accountants Emily Walker, CAE, Vice President, Advocacy, Virginia Society of Certified Public Accountants Linda Newsom-McCurdy, CAE, Senior Director of Member Value, Virginia Society of Certified Public Accountants Amy Mawyer, Vice President of Learning, Virginia Society of Certified Public Accountants Clifton M. Coger

CALL TO ORDER

Ms. Ferguson called the meeting to order at 10:00 a.m.

VIRGINIA BOARD OF ACCOUNTANCY

Board Meeting
January 8, 2019
Draft/Unapproved minutes

SECURITY BRIEFING

Ms. Hambright provided the emergency evacuation procedures.

DETERMINATION OF QUORUM

Ms. Ferguson determined there was a quorum present.

APPROVAL OF AGENDA

Upon a motion by Mr. Brown, and duly seconded, the members voted unanimously to approve the January 8, 2019, agenda as amended. The members voting “**AYE**” were Ms. Ferguson, Mr. Carson, Mr. Bosher, Mr. Bradshaw, Mr. Brown, Ms. Saunders and Ms. Warwick.

APPROVAL OF MINUTES

Upon a motion by Mr. Bradshaw, and duly seconded, the members voted unanimously to approve the December 4, 2018, Board meeting minutes as amended. The members voting “**AYE**” were Ms. Ferguson, Mr. Carson, Mr. Bradshaw, Mr. Brown and Ms. Saunders. (Mr. Bosher and Ms. Warwick were not in attendance for the December 4, 2018, Board meeting and abstained from the vote.)

PUBLIC COMMENT PERIOD

Mr. Coger addressed the Board members regarding the CPA licensure reinstatement process.

COMMITTEE/NASBA UPDATES

NASBA Education Committee

Ms. Saunders led the discussion regarding the NASBA Education Committee. She noted the committee had met yesterday in Nashville, TN. Ms. Saunders and Ms. Ferguson attended. She noted the committee’s topics of discussion included the decline in examination candidates, the education requirement to sit for the CPA examination and the accreditation of educational facilities.

NASBA Board of Directors

Ms. Saunders led the discussion regarding the NASBA Board of Directors. She noted the committee was scheduled to meet next week.

EXECUTIVE DIRECTOR’S REPORT

Board Meeting
January 8, 2019
Draft/Unapproved minutes

General Updates

Ms. Glynn presented the following general updates regarding the VBOA:

- Ms. Glynn noted the Information and Policy Advisor position would be vacant effective January 9, 2019, and the VBOA would recruit to fill the position in the future.
- Ms. Glynn noted a new project manager has been hired and will work with MicroPact on the new database system.

November Board Report

Ms. Charity presented and fielded questions regarding the November 2018 Board Report.

November Financial Report

Ms. Reinholtz presented and fielded questions regarding the November 2018 Financial Report.

Revenue Projections

Ms. Reinholtz presented and fielded questions regarding the revenue projections.

BOARD DISCUSSION TOPICS

Regulatory/Legislative Updates

Ms. Allen led the discussion regarding the regulatory/legislative updates. She noted the Notice of Intended Regulatory Action (NOIRA) had cleared the executive branch review and was submitted to *The Virginia Register of Regulations*. The comment period would run from January 21, 2019 through February 20, 2019. Ms. Allen provided a handout detailing the standard regulatory process for state agencies.

Proposed UAA Model Rules

Ms. Allen led the discussion regarding the proposed UAA Model Rules. After a thorough discussion, the Board agreed no comment was necessary for the February 11, 2019, proposed UAA Model Rule change deadline. Ms. Warwick will review the proposed UAA Model Rules Article 7 for future Board discussion.

Board Meeting
January 8, 2019
Draft/Unapproved minutes

UAA Guidelines

Mr. Dickerson led the discussion regarding the UAA guidelines. He outlined the NASBA Continuing Professional Education Committee charge to develop and promote uniform rules and requirements for CPE among the jurisdictions. He noted the 2018 NASBA National Registry Summit was held September 25 and 26 in Denver, CO. Mr. Dickerson noted the statement on standards is reviewed every two years. Board member discussion included a need for further review of the VBOA CPE requirements.

RECESS FOR LUNCH 12:00 p.m.

RECONVENE 12:45 p.m.

BOARD DISCUSSION TOPICS continued

Potential Changes to 18VAC5-22-90 and 18VAC5-22-140

Ms. Allen led the discussion regarding the potential changes to 18VAC5-22-90 and 18VAC5-22-140. Ms. Allen provided a handout to include suggested revisions. Ms. Allen fielded questions and a thorough discussion followed.

ADDITIONAL ITEMS FOR DISCUSSION

Carry over items/potential future topics

- Publication of VBOA disciplinary actions (On-going)
- Potential changes to 18VAC5-22-90 and 18VAC5-22-140 (On-going)
- CPE guidelines (To be determined)
- Active – CPE Exempt status (February 2019)
- Trust Fund Reserve Policy (To be determined)
- Virginia-Specific Ethics Course (On-going)
- Required coursework for CPA examination/licensure
- Cannabis laws

Sign Conflict of Interest forms

Sign Travel Expense vouchers

Future meeting dates
- February 5, 2019

- April 23, 2019
- May 21, 2019

Begin closed meeting

Upon a motion by Mr. Carson, and duly seconded, the members approved by unanimous vote the meeting be recessed and the Virginia Board of Accountancy convene a closed meeting under the Virginia Freedom of Information Act for the provision of legal counsel and to consult with legal counsel on issues relating to probable litigation, and/or consider the status of all open Enforcement Cases and cases listed on our agenda, a matter lawfully exempted from open meeting requirements under the 'consulting with legal counsel' and 'disciplinary proceedings' exemptions contained in Virginia Code § 2.2-3711(A)(7)(27)." The following non-members will be in attendance to reasonably aid in the consideration of this topic: Nancy Glynn, Robert Drewry and Amanda Blount. The following non-member will be in attendance for a portion of the meeting to reasonably aid in the consideration of this topic: Kelli Anderson

End closed meeting

Upon a motion by Mr. Carson, and duly seconded, the Virginia Board of Accountancy has convened a closed meeting on this date pursuant to an affirmative recorded vote and in accordance with the provisions of the Virginia Freedom of Information Act; and WHEREAS, § 2.2-3712.A of the Code of Virginia requires a certification by this Board that such closed meeting was conducted in conformity with Virginia law; NOW THEREFORE, BE IT RESOLVED, that the VBOA hereby certifies that, to the best of each member's knowledge, (i) only public business matters lawfully exempted from open meeting requirements by Virginia laws were discussed in the closed meeting to which this certification resolution applies, and (ii) only such public business matters as were identified in the motion convening the closed meeting were heard, discussed or considered by the VBOA.

CALL FOR VOTE:
Susan Quaintance Ferguson, CPA – Aye
D. Brian Carson, CPA, CGMA – Aye
Matthew P. Bosher, Esq. – Aye
W. Barclay Bradshaw, CPA – Aye
William R. Brown, CPA – Aye
Stephanie S. Saunders, CPA – Aye
Laurie A. Warwick, CPA – Aye

VOTE:
Ayes: Seven (7)
Nays: None

VIRGINIA BOARD OF ACCOUNTANCY

Board Meeting
January 8, 2019
Draft/Unapproved minutes

The following action was taken as a result of the closed session:

Upon a motion by Mr. Bosher, and duly seconded, members voted unanimously to bestow the honor of FOIA Officer to Kelli Anderson. The members voting "**AYE**" were Ms. Ferguson, Mr. Carson, Mr. Bosher, Mr. Bradshaw, Mr. Brown, Ms. Saunders and Ms. Warwick.

Begin closed meeting

Upon a motion by Mr. Carson, and duly seconded, the members approved by unanimous vote the meeting be recessed and the Virginia Board of Accountancy convene a closed meeting under the Virginia Freedom of Information Act to discuss and consider a personnel matter relating to the Board of Accountancy Staff, a matter lawfully exempted from open meeting requirements under the 'personnel matters' exemption contained in Virginia Code § 2.2-3711(A)(1)." The following non-member will be in attendance for the closed meeting to reasonably aid in the consideration of this topic: Nancy Glynn.

End closed meeting

Upon a motion by Mr. Carson, and duly seconded, the Virginia Board of Accountancy has convened a closed meeting on this date pursuant to an affirmative recorded vote and in accordance with the provisions of the Virginia Freedom of Information Act; and WHEREAS, § 2.2-3712.A of the Code of Virginia requires a certification by this Board that such closed meeting was conducted in conformity with Virginia law; NOW THEREFORE, BE IT RESOLVED, that the VBOA hereby certifies that, to the best of each member's knowledge, (i) only public business matters lawfully exempted from open meeting requirements by Virginia laws were discussed in the closed meeting to which this certification resolution applies, and (ii) only such public business matters as were identified in the motion convening the closed meeting were heard, discussed or considered by the VBOA.

CALL FOR VOTE:
Susan Quaintance Ferguson, CPA – Aye
D. Brian Carson, CPA, CGMA – Aye
Matthew P. Bosher, Esq. – Aye
W. Barclay Bradshaw, CPA – Aye
William R. Brown, CPA – Aye
Stephanie S. Saunders, CPA – Aye
Laurie A. Warwick, CPA – Aye

VOTE:
Ayes: Seven (7)

Nays: None

ADJOURNMENT

There being no further business before the VBOA, upon a motion by Mr. Brown, and duly seconded, the meeting adjourned by unanimous vote at 3:15 p.m. The members voting "**AYE**" were Ms. Ferguson, Mr. Carson, Mr. Bosher, Mr. Bradshaw, Mr. Brown, Ms. Saunders and Ms. Warwick.

APPROVED:

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Susan Quaintance Ferguson, CPA, Chair

COPY TESTE:

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Nancy Glynn, CPA, Executive Director

Virginia Society of CPAs- Consultation on Reviews Commenced and Abandoned

Purpose: To determine how to move forward with the firms below where their current review is more than two years late due to a lack of response from the firm's peer reviewer.

Each firm has an active license in the state of Virginia and no other licenses. The Virginia State Board of Accountancy has indicated they will work with these firms in renewing their licenses due to the circumstances out of the firm's control under the assumption the firms will follow AICPA guidance.

Guidance: PRPM Interpretation 18-2 provides guidance regarding what to do when circumstances outside of the firm's control affect the firm's ability to comply with some or all of the peer review requirements.

Procedures: Formulate a recommended action after considering risks related to each firm such as:

- Public risk – is there a reliance on the firm's audits? Identify risks by searching publicly available databases for audits issued from 2014 – 2017.
    - Department of Labor (ERISA)
    - Federal Audit Clearinghouse (Single Audits)
    - Public Company Accountings Standards Oversight Board (broker-dealers)
- Peer review risks – are there any particular circumstances which would affect any decision to waive the firm's current review and allow a more recent review? Identify risks by looking at the firm's peer review history and inquiring of the firm's current A&A practice and any significant changes in the firm.
    - Prior PwD or Fail reports
    - New levels of service requiring a different type of peer review
    - Specialized industries or types of engagements, including must-selects

Proposed Solution: The current peer review for each firm should be closed (unresolved) and the firm allowed to complete a new review with the following year end and due date:

Firm Name	*Proposed Year End*	*Proposed Due Date*
Advantage Accounting & Tax Solutions	12/31/2018	6/30/2019
Radloff & Schmitz, PLLC	6/30/2018	5/31/2019
Scheulen, Patchett & Edwards, PC	3/31/2018	5/31/2019
Frank Barcalow CPA, PLLC	6/30/2018	5/31/2019

The proposed year end and due date keep each firm on the same peer review year end. The administering entity may determine a different year end is more appropriate based on the composition of the firm's practice following PRPM Interpretations 14-1 and 17-1.

Specific Firm Information and Rationale for Guidance:

Advantage Accounting & Tax Solutions (#900010152500) – license expires 2/28/19

Review #	*Year End*	*Due Date*	*Commencement*	*# Partners*	*# Personnel*	*Prior Rating*	*Must-Selects*
370775	12/31/2014	9/30/2015	6/25/2015	1	4	Pass	ERISA

The firm does not currently perform any must-select engagements, which would mean waiving the current review would result in the ERISA audit not being included. Based on the facts below, the risk of waiving the review is minimal and having a review of the firm's current system of quality control would be more important.

- The firm last performed a 12/31/14 ERISA audit which is more than three years old.

    - That plan fell below the audit requirement threshold, thus a 12/31/15 ERISA audit was not required (less than 100 participants). The firm does file the Form 5500 for the plan, which indicated 5 total employees as of 12/31/17.
- The firm issued two ERISA audits with a 12/31/11 year end, both of which were 401(k) audits. One was selected in the 12/31/11 peer review and deemed conforming to professional standards in all material respects.
    - The firm performed only one ERISA audit 2012 - 2014

Radloff & Schmitz, PLLC (#900000693370) – license expires 6/30/19

Review #	*Year End*	*Due Date*	*Commencement*	*# Partners*	*# Personnel*	*Prior Rating*	*Must-Selects*
389188	6/30/2015	12/31/2015	9/1/2015	1	2	PwD	N/A

The firm's prior review was an engagement review which was a PwD for failing to include all required elements of SSARS. While the firm may not have applied SSARS properly in the current peer review period, the more important aspect would be to determine if the firm is currently applying SSARS properly.

The firm has confirmed the makeup of their A&A practice has not changed in the past few years, thus an engagement review is still appropriate.

Scheulen, Patchett & Edwards, PC (#900010081073) – license expires 12/31/18

Review #	*Year End*	*Due Date*	*Commencement*	*# Partners*	*# Personnel*	*Prior Rating*	*Must-Selects*
373295	3/31/2015	11/30/2015	9/22/2015	3	15	Pass	N/A

There are no identified risks with waiving the firm's current review as the firm has a clean peer review history and their practice structure has not changed over the past several years.

Frank Barcalow CPA, PLLC (#900010144124) – license expires 6/30/19

Review #	*Year End*	*Due Date*	*Commencement*	*# Partners*	*# Personnel*	*Prior Rating*	*Must-Selects*
390301	6/30/2015	1/31/2016	11/16/2015	1	2	PwD	Single Audit

The risk with the firm is related to the prior PwD, though the risk appears minimal. The deficiencies resulted in a non-conforming Yellow Book/Single Audit due to failing to meet Yellow Book CPE requirements and failure to document Yellow Book independence considerations. The risk is mitigated because:

- The firm completed the corrective actions to submit CPE certificates to be in compliance with the Yellow Book and submit their next monitoring report.
- The firm's Letter of Response indicated the firm modified its quality control procedures to meet Yellow Book requirements and to better monitor Governmental Auditing Standards.
    - The firm's Letter of Response nor corrective actions addressed the firm's documentation of independence; however, it is unlikely the peer review conclusions will be different regardless of the year end selected.

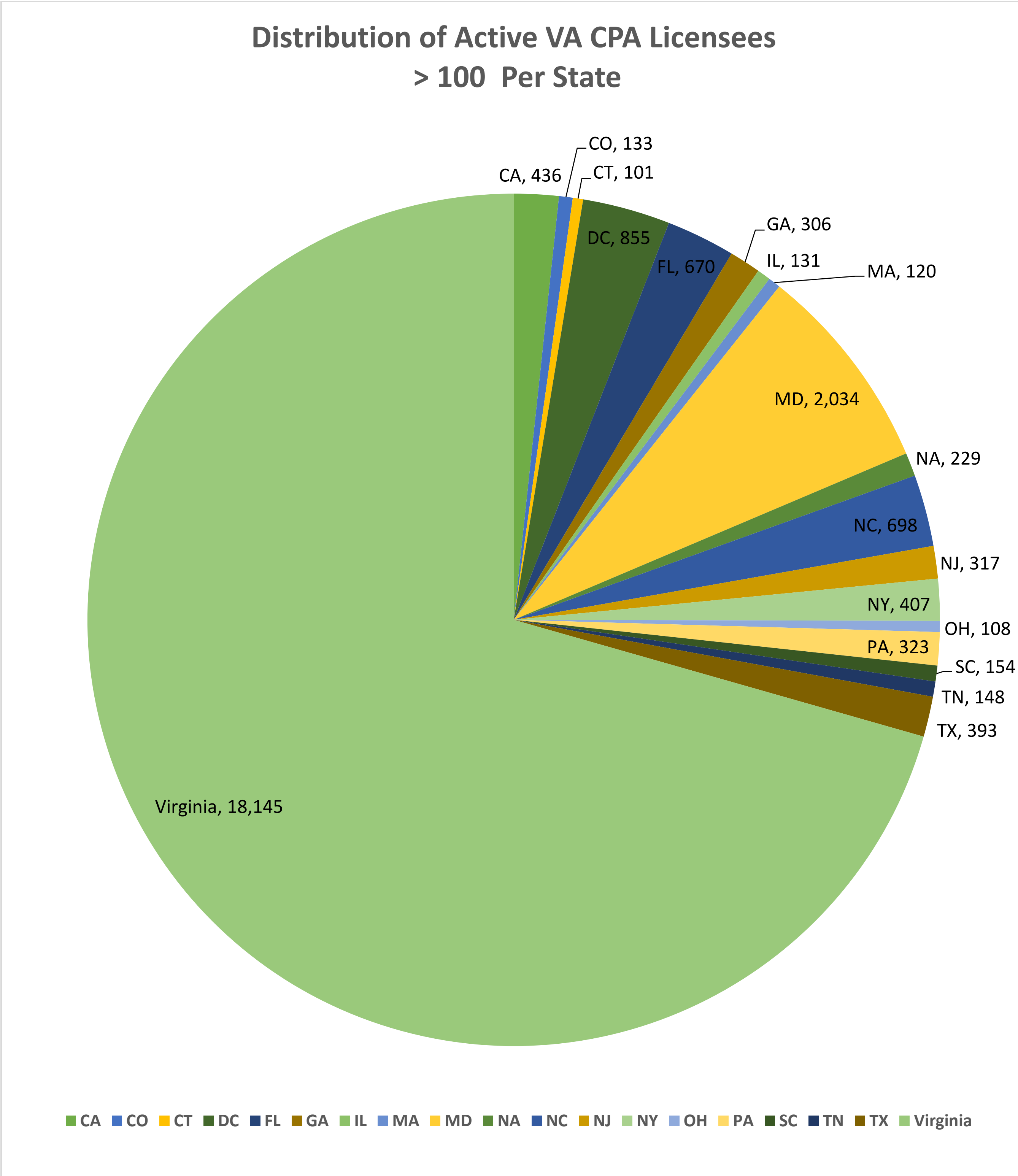
Waiving the current review will allow a reviewer to consider whether the firm appropriately documented their consideration of the departure of the GAO peer review requirements (every three years and six months) in accordance with Yellow Book para 2.16 (document the justification for the departure and how alternative procedures performed were sufficient achieve the intent of that requirement).

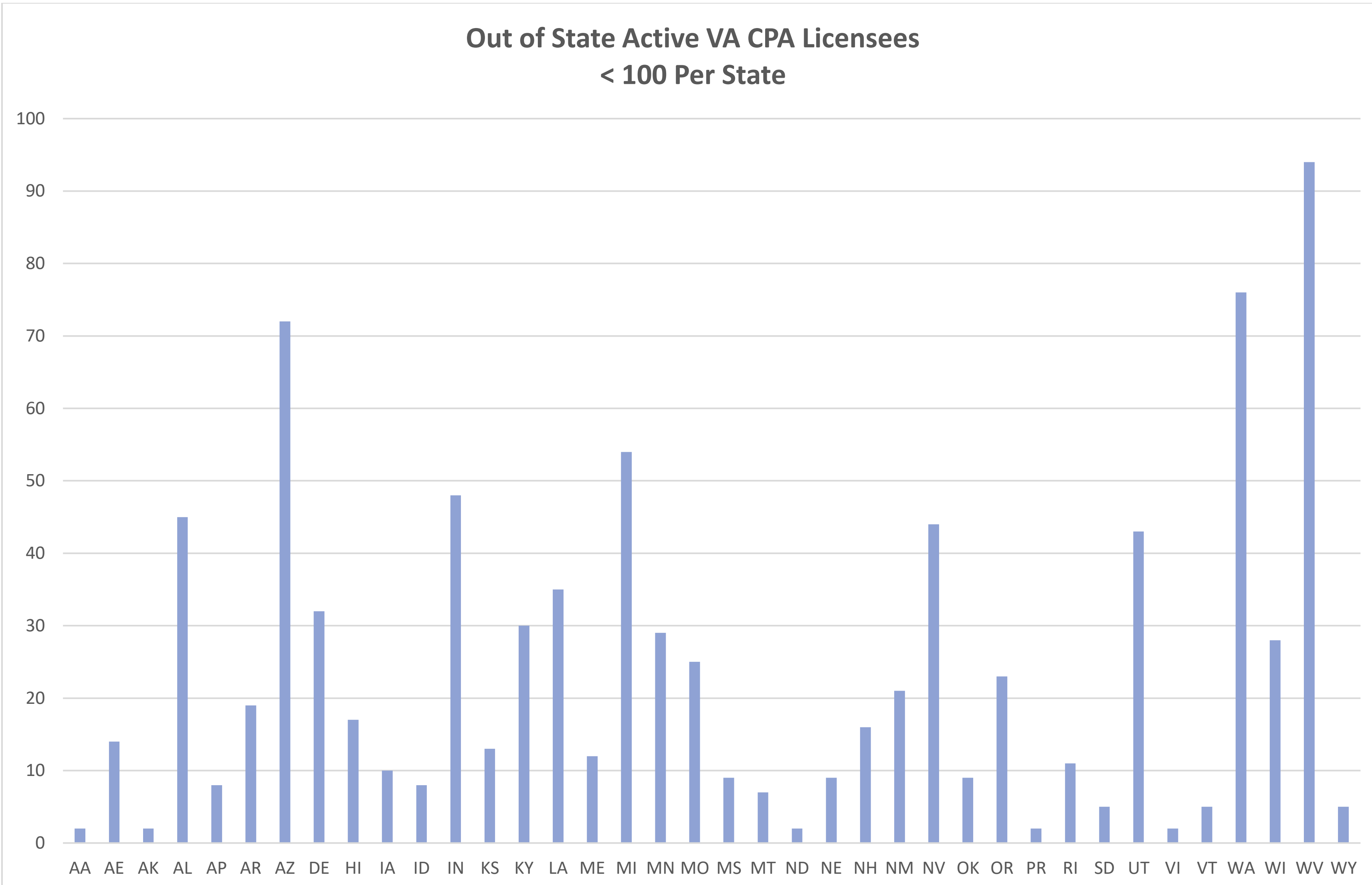
Virginia Board of Accountancy
FY18 Board Report
As of November 30, 2018

REPORT CATEGORIES	FY2019 - YTD as of 12/31/18	FY2019 - YTD as of 11/30/18	FY2018 - YTD as of 11/30/17	Fiscal Year Ending 6/30/18	Fiscal Year Ending 6/30/17	Fiscal Year Ending 6/30/16	Fiscal Year Ending 6/30/15
LICENSEES							
Individuals:							
Number of Active, licensed CPAs	26,614	26,594	26,021	26,318	25,452	24,648	24,791
Number of Active - CPE Exempt, licensed CPAs	1,677	1,647	1,427	1,585	1,326	1,158	898
Number of Active - Renewal Fee Delinquent (<12 months), licensed CPAs	0	0	406	0	933	1,516	1,142
Total Number of Licensed CPAs	**28,291**	**28,241**	**27,854**	**27,903**	**27,711**	**27,322**	**26,831**
Number of out-of-state licensees	8,478	8,458	8,325	8,330	8,290	8,152	8,086
Reinstatements - Individuals	67	51	72	178	92	79	106
Number of new CPA licenses issued	594	477	570	1,227	1,378	1,322	1,240
Net change in number of expired/voluntary surrendered licenses (>12 months)	273	190	499	1,213	1,081	910	863
Firms:							
Number of Active, licensed CPA firms	1,169	1,178	1,151	1,177	1,123	1,092	1,115
Number of Active - Renewal Fee Delinquent (<12 months), licensed CPA firms	0	0	22	0	44	65	71
Total Number of Licensed CPA Firms	**1,169**	**1,178**	**1,173**	**1,177**	**1,167**	**1,157**	**1,186**
Reinstatements - Firms	2	1	3	10	5	5	0
Number of new CPA firm licenses issued	23	16	33	74	65	29	40
Net change in number of expired/voluntary surrendered firm licenses (>12 months)	33	16	30	74	60	63	72
EXAM CANDIDATES							
Number of first time candidates applying to sit for CPA exam	712	614	553	1,675	1,819	2,136	1,904
ENFORCEMENT							
Number of complaints	29	28	46	85	82	145	84
Types of complaints:							
Unlicensed activity	10	9	18	20	45	41	24
Other disciplinary matters	19	19	28	65	37	104	60
CPE AUDITS							
Number of CPE audits selected	1,268	1,063 (a)	1,235	2,402	2,022	1,578	1,088
Status of CPE Audits:							
# of CPE audits resulting in compliance	809	713	756	2,001	1,594	1,291	819
# of CPE audit deficiencies	63	53	100	401	428	286	269
# of CPE audit deficiencies resulting in surrender of license	4	4	6	32	52	30	17
# of CPE audit deficiencies resulting in suspension of license	3	3	0	23	34	19	19
# of CPE audits open/pending review	396	297	379	0	0	1	0
CPE Audit Deficiency Rate	7%	7%	12%	17%	21%	18%	25%

<u>NOTES</u>:

(a) CPE audits selected through December 2018.


Distribution of Active VA CPA Licensees
> 100 Per State
CA, 436
CO, 133
CT, 101
DC, 855
FL, 670
GA, 306
IL, 131
MA, 120
MD, 2,034
NA, 229
NC, 698
NJ, 317
NY, 407
OH, 108
PA, 323
SC, 154
TN, 148
TX, 393
Virginia, 18,145
CA CO CT DC FL GA IL MA MD NA NC NJ NY OH PA SC TN TX Virginia



Out of State Active VA CPA Licensees
< 100 Per State
100
90
80
70
60
50
40
30
20
10
0
AA AE AK AL AP AR AZ DE HI IA ID IN KS KY LA ME MI MN MO MS MT ND NE NH NM NV OK OR PR RI SD UT VI VT WA WI WV WY

Virginia Board of Accountancy
Financial Report
FY19 Budget vs. Actual Expenses
As of December 31, 2018

Expenditure Type		FY19 Operating Budget	FY19 YTD Expenditures	% Expended	FY18 YTD Expenditures	FY17 YTD Expenditures	FY16 YTD Expenditures
Salaries & Benefits		1,246,789	648,048	52.0%	1,174,172	1,103,143	999,185
	Total Salaries & Benefits	**$ 1,246,789**	**$ 648,048**	**52.0%**	**$ 1,174,172**	**$ 1,103,143**	**$ 999,185**
Contractual Services							
1209	Charge Card Purchases (not distributed)	-	-	---	-	-	-
1211	Express Services	800	86	10.8%	722	-	-
1214	Postal Services	13,000	4,196	32.3%	12,886	7,975	9,144
1215	Printing Services	5,500	2,049	37.3%	5,487	5,245	4,163
1216	Telecommunications - VITA	13,500	6,290	46.6%	11,613	12,272	10,021
1217	Telecommunications - Nonstate (CallFire)	300	50	16.7%	100	600	-
1219	Inbound Freight	150	47	31.4%	160	418	858
1221	Organization Memberships (primarily NASBA)	7,255	6,860	94.6%	7,255	7,250	7,030
1222	Publication Subscriptions	1,250	876	70.1%	1,266	4,730	5,254
1224	Training - Courses, Workshops, Conferences	6,955	1,428	20.5%	11,459	8,914	8,566
1225	Employee Tuition Reimbursement	1,618	1,618	100.0%	-	-	-
1227	Training-Transportation, Lodging, Meals, Incidentals	15,000	639	4.3%	23,825	10,933	16,123
1228	Employee IT Training Courses/Workshops and Conferences	100	-	0.0%	-	91	91
1242	Fiscal Services (Credit Card Merchant Fees)	50,000	16,695	33.4%	48,558	53,790	47,883
1243	Attorney Services (Including OAG)	62,020	31,010	50.0%	51,736	24,844	36,671
1244	Mgmt. Services - NASBA/special accommodations - IT Support	29,800	17,600	59.1%	21,736	75,641	64,564
1245	Personnel Management Services	-	79	---			
1246	Public Info/Public Relations (subscriptions)	5,100	360	7.1%	3,538	5,015	1,756
1247	Legal Services (Includes court reporting services)	18,000	6,829	37.9%	19,562	12,977	10,306
1248	Media Services	-	-	---	-	-	235
1252	Electrical Repair/Maintenance	-	-	---	-	90	-
1253	Equipment Repair/Maintenance	-	823	---	-	-	-
1263	Clerical / Temp Services	-	-	---	2,754	2,475	-
1264	Food and Dietary Services	3,500	857	24.5%	3,236	2,156	2,170
1265	Laundry & Linen Services	-	-	---	-	25	-
1266	Manual Labor Services (Includes shredding services)	720	140	19.4%	394	1,122	380
1267	Production Services	-	-	---	-	-	1,771
1268	Skilled Services	-	-	---	-	-	960
1272	VITA Pass Thru Charges (SA Maintenance, IT Upgrades, and ISO services)	131,677	48,956	37.2%	135,170	122,620	87,475
1273	Info Mgmt Design and Development Services (Project Manager)	156,000	57,500	36.9%	94,600	-	-
1278	VITA Information Technology Infrastructure Services	144,000	60,105	41.7%	119,126	90,483	118,041
1279	Computer Software Development Services (MicroPact and Data Conversion)	455,570	226,915	49.8%	346,155	-	-
1282	Travel - Personal Vehicle	8,000	2,565	32.1%	8,099	6,980	5,926
1283	Travel - Public Carriers	-	77	---	-	589	543
1284	Travel - State Vehicles	1,000	67	6.7%	652	619	1,347
1285	Travel - Subsistence and Lodging	1,500	1,221	81.4%	2,182	1,250	1,749
1288	Travel, Meal Reimburse - Not IRS Rpt	1,000	604	60.4%	1,423	730	917
	Total Contractual Services	**$ 1,133,315**	**$ 496,543**	**43.8%**	**$ 933,694**	**$ 459,834**	**$ 487,145**
Supplies and Materials							
1312	Office Supplies	5,000	1,752	35.0%	5,023	4,338	6,726
1313	Stationery and Forms	2,500	984	39.4%	2,028	2,214	2,249
1323	Gasoline (Enterprise vehicles)	250	103	41.4%	221	155	308
1335	Packaging and Shipping Supplies	500	647	129.4%	485	958	715
1342	Medical & Dental Supplies	50	-	0.0%	-	260	48

Expenditure Type		FY19 Operating Budget	FY19 YTD Expenditures	% Expended	FY18 YTD Expenditures	FY17 YTD Expenditures	FY16 YTD Expenditures
Supplies and Materials, continued							
1352	Custodian Repair & Maintenance	300	-	0.0%	389	41	48
1362	Food & Dietary Supplies	525	109	20.7%	498	561	260
1363	Food Service Supplies	100	-	0.0%	62	107	15
1364	Laundry & Linen Supplies	-	-	---	-	24	-
1373	Computer Operating Supplies	5,500	2,022	36.8%	3,194	7,004	3,402
	Total Supplies & Materials	**$ 14,725**	**$ 5,617**	**38.1%**	**$ 11,900**	**$ 15,919**	**$ 14,635**
Transfer Payments							
1413	Awards & Recognition	900	138	15.3%	848	863	717
1415	Unemployment Compensation	-	-	---	-	-	-
1418	Incentives	-	-	---	-	410	-
	Total Transfer Payments	**$ 900**	**$ 138**	**15.3%**	**$ 848**	**$ 1,273**	**$ 717**
Continuous Charges							
1512	Automobile Liability Insurance	231	-	0.0%	231	231	231
1516	Property Insurance	1,224	-	0.0%	1,224	1,224	1,224
1534	Equipment Rentals	8,500	3,485	41.0%	8,645	8,460	4,865
1539	Building Rentals - Non-State Owned Facilities	93,417	46,398	49.7%	90,982	88,126	76,350
1541	Agency Service Charges (DOA, PSB, DHRM, LVA & eVA)	38,424	1,521	4.0%	38,169	36,071	32,411
1551	General Liability Insurance	188	-	0.0%	188	188	188
1554	Surety Bonds	40	-	0.0%	40	40	40
1555	Worker's Compensation	978	-	0.0%	978	968	978
	Total Continuous Charges	**$ 143,002**	**$ 51,404**	**35.9%**	**$ 140,457**	**$ 135,308**	**$ 116,287**
Equipment							
2216	Network Components	1,200	65	5.4%	341	1,117	530
2217	Other Computer Equipment	500	762	152.3%	685	300	744
2218	Computer Software Purchases	-	379	---	540	2,157	3,556
2224	Reference Equipment	50	32	64.5%	80	26	181
2231	Electronic Equipment	-	-	---	-	164	-
2232	Photographic Equipment	-	-	---	552	845	-
2233	Voice and Data Transmission Equipment	-	-	---	164	-	1,691
2238	Electronic and Photo Equipment Improvements (Board Rooms)	3,000	-	0.0%	6,125	-	-
2261	Office Appurtenances (Blinds, Carpet, etc.)	350	-	0.0%	94	-	880
2262	Office Furniture	15,000	127	0.8%	555	3,375	14,385
2263	Office Incidentals	1,500	59	3.9%	969	2,646	1,627
2264	Office Machines	-	-	---	65	928	821
2268	Office Equipment Improvements	150	-	0.0%	-	129	129
2271	Household Equipment	-	-	---	-	342	-
	Total Equipment	**$ 21,750**	**$ 1,424**	**6.5%**	**$ 10,168**	**$ 12,030**	**$ 24,543**
	Total Expenses	**$ 2,560,481**	**$ 1,203,174**	**48.6%**	**$ 2,271,239**	**$ 1,727,506**	**$ 1,642,512**
	Chapter 2 Appropriation	**$ 2,476,080**					
	Decision Package Appropriation Requests (To be requested)	**$ 84,401**					
	Total Projected Appropriation	**$ 2,560,481**					

Virginia Board of Accountancy
Financial Report
Cash Balance
As of December 31, 2018

	Operating Fund (09226)		Special Fund (02020)	
	FY2019 - YTD as of 12/31/18	FY2018 - YTD as of 12/31/17	FY2019 - YTD as of 12/31/18	FY2018 - YTD as of 12/31/17
Beginning Fund Balance July 1:	**$ 614,003**	**$ 511,346**	**$ 3,700,807**	**$ 3,677,602**
YTD Revenue Collected *	810,460	1,272,648	17,505	11,211
Accounts Payable **	76,108	161,856	0	0
Interfund Cash Transfers In/(Out), based on September 30th balance	43,805	(267,307)	(43,805)	267,307
Interfund Cash Transfers In/(Out), based on December 31st balance	373,278	0	(373,278)	0
Interfund Cash Transfers In/(Out), based on March 31st balance	0	0	0	0
Interfund Cash Transfers In/(Out), based on June 30 balance	0	0	0	0
YTD Expenditures	(1,202,724)	(1,125,502)	0	0
Cash Balance before annual transfers	**$ 714,931**	**$ 553,042**	**$ 3,301,229**	**$ 3,956,120**
<u>Projected Cash Transfers</u>:				
Transfers to Central Service Agencies ***	($11,302)	($10,155)	$0	$0
Cash Balance after transfers	**$ 703,629**	**$ 542,887**	**$ 3,301,229**	**$ 3,956,120**

* Includes Interest Earnings - Per Virginia Acts of Assembly - Chapter 732 - §3-3.03 - Approved April 10, 2016, the State Comptroller shall allocate revenue for interest earnings effective FY2016. Interest Earnings had not been allocated since FY2010.

** Prior to October 1, 2014 and the implementation of the Commonwealth's new financial accounting and reporting system (Cardinal) all payments immediately reduced cash when processed (in CARS). The new Cardinal financial system operates on a modified accrual basis and cash balances are not affected until the voucher's due date. The Cardinal system generates an offsetting entry to a liability account (accounts payable) when the voucher is processed. Once the voucher due date arrives, the payment is made, the liability is relived and cash is now reduced.

*** Non-general fund Transfers required by Virginia Acts of Assembly Part 3-1.01F for expenses incurred by central service agencies due on or before June 30.

Virginia Board of Accountancy
Financial Report
Revenue by Fee Type
Source: VBOA Licensing System (MLO)

	Fee Type	FY2019 - YTD as of 12/31/18	FY2018 - YTD as of 12/31/17	Fiscal Year Ending 6/30/18	Fiscal Year Ending 6/30/17	Fiscal Year Ending 6/30/16
(a)	Pre-Evaluation of Transcripts	$ -	$ -	$ -	$ -	$ 3,975
	Application Fee	$ 147,645	$ 145,515	$ 309,965	$ 333,960	$ 369,945
(b)	Re-Exam Application	$ 49,460	$ 47,120	$ 90,580	$ 115,480	$ 61,220
(c)	Renewal Fee	$ 570,305	$ 1,028,270	$ 1,859,054	$ 2,086,540	$ 1,864,290
	Reinstatement Fee	$ 30,050	$ 28,800	$ 64,570	$ 45,775	$ 35,450
	Duplicate Wall Certificate Fee	$ 825	$ 1,050	$ 1,950	$ 1,775	$ 1,750
	License Verification Fee	$ 9,600	$ 10,650	$ 20,025	$ 20,487	$ 19,963
	CPA Exam Score Transfers	$ 1,125	$ 1,125	$ 2,325	$ 2,075	$ 2,075
	Failure to Respond to Board Requests	$ -	$ -	$ -	$ 5,100	$ 4,300
	Administrative Fee	$ -	$ 1,000	$ 1,000	$ 5,100	$ 4,100
	Bad Check Fee	$ 50	$ -	$ 150	$ 50	$ 100
	Total Revenue	**$ 809,060**	**$ 1,263,530**	**$ 2,349,619**	**$ 2,616,342**	**$ 2,367,168**
(d)	**Net Revenue per Commonwealth Accounting and Reporting System (Cardinal)**	**$ 807,717**	**$ 1,269,810**	**$ 2,338,729**	**$ 2,604,132**	**$ 2,378,598**
(e)	**Difference**	**$ 1,343**	**$ (6,280)**	**$ 10,890**	**$ 12,210**	**$ (11,430)**

NOTES:

(a) Effective October 15, 2015, VBOA no longer collected fees for Pre-Evaluation of Transcripts.

(b) Effective January 5, 2016, VBOA implemented the Re-Exam Application fee.

(c) Renewal Fee also includes associated late fees prior to FY19.

(d) Net Revenue per Cardinal reported above includes only revenue received from regulatory fees.

(e) Revenue Totals from the VBOA Licensing System (MLO) will not always match Revenue collected and reported on the VBOA Cash Report (Cardinal), due to timing differences in dates transactions are posted into each system and pending adjustments.

Virginia Board of Accountancy
Financial Report
Accounts Receivable
As of December 31, 2018

	FY2019 - YTD as of 12/31/18		FY2018 - YTD as of 12/31/17		Fiscal Year Ending 6/30/18		Fiscal Year Ending 6/30/17		Fiscal Year Ending 6/30/16
Fines levied/collected/receivable:									
$ amount of fines levied	$ 86,200		$ 106,700		$ 326,285		$ 187,925		$ 284,528
$ amount of fines collected	$ 100,118		$ 112,491		$ 258,879		$ 198,771		$ 252,626
$ OAG Fees	$ -		$ -		$ -		$ -		$ 342
$ Discharged	$ -		$ -		$ -		$ -		$ -
Outstanding Current fines receivable (< 365 Days)	$ 77,567		$ 13,551		$ 92,026		$ 25,442		$ 51,538
Outstanding Written-off receivables (=> 365 Days) (a)	$ 592,764		$ 597,500		$ 592,222		$ 591,400		$ 576,150

NOTE:

(a) All accounts uncollected after one year are deemed uncollectible, are written off of the VBOA's financial account records, and are no longer recognized receivables for financial reporting purposes; however, the legal obligation to pay the debt still remains.

VIRGINIA BOARD OF ACCOUNTANCY

FINANCIAL STATEMENTS

For the Year Ended
June 30, 2018

-TABLE OF CONTENTS–

	Pages
MANAGEMENT’S DISCUSSION AND ANALYSIS	1-7
FINANCIAL STATEMENTS:	
Basic Financial Statements:	
Entity-Wide Financial Statements:	
Statement of Net Position	8
Statement of Activities	9
Fund Financial Statements:	
Balance Sheet	10-11
Statement of Revenues, Expenditures, and Changes in Fund Balance	12-13
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual	14-15
Notes to Financial Statements	16-72
Required Supplementary Information and Notes to Required Supplementary Information	73-90
MEMBERS OF THE VIRGINIA BOARD OF ACCOUNTANCY	91
INDEPENDENT AUDITOR’S REPORT Report on Financial Statements	xx-xx

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

As management of the Virginia Board of Accountancy (Board), the Board offers readers of these financial statements this narrative overview and analysis of the financial activities of the Board for the fiscal year ended June 30, 2018.

Financial Highlights

The assets and deferred outflows of resources of the Board exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $3,482,792 (net position), an increase of $246,682 in comparison with the prior year. Of this amount, $2,890,470 represents unrestricted net position, which may be used to meet the Board's ongoing obligations.

At the close of FY2018, the Board's governmental funds reported combined ending fund balances of $4,238,169, an increase of $136,336 in comparison with the prior year. The committed portion of the fund balance is $4,235,508, which is available for spending at the Board's discretion.

At the close of FY2018, the total fund balance for the Board's Operating Fund was $537,362, or approximately 24 percent of total operating expenditures. The Board also has a Trust Account to be used for the study, research, investigation, and adjudication of matters involving possible violations of statutes or regulations relating to the profession of public accounting, or for any other purpose the Board determines is relevant to its statutory purposes and cannot otherwise be funded through its Operating Fund. At the close of FY2018, the Trust Account reported an ending fund balance of $3,700,807.

Continued investments in technology are necessary to achieve the operational efficiencies necessary for the Board to reach its strategic goals. The Board is currently supported by a generic off-the-shelf licensing software system that was installed in FY2009 which is used for licensing and enforcement of CPAs and CPA firms which includes online licensing renewals and applications. The current system does not meet the needs of staff, applicants, licensees or the public and is in need of updates and modifications. The Board received Project Initiation Approval (PIA) from the Chief Information Officer of the Commonwealth in early FY2018 for a new licensing database system and began development during the year. The Board anticipates implementation of the new system by early FY2020.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Board's basic financial statements, which are comprised of three components: (1) the entity-wide financial statements, (2) the fund financial statements, and (3) the Notes to Financial Statements.

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Entity-Wide Financial Statements

The entity-wide financial statements are designed to provide readers with a broad overview of the Board's finances, in a manner similar to private-sector business.

The Statement of Net Position presents information on all of the Board's assets and deferred outflows of resources, and liabilities and deferred inflows of resources; net position represents the difference between all other elements in a statement of financial position and is displayed in three components – net investment in capital assets; restricted; and unrestricted. Over time, increases or decreases in net position may indicate whether the financial position of the Board is improving or deteriorating.

The Statement of Activities presents information showing how the Board's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned, but unused vacation leave).

The entity-wide financial statements can be found on pages 8 and 9 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Board, like other state and local government agencies, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the Board's funds are governmental funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions as governmental activities in the entity-wide financial statements. However, unlike the entity-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government agency's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the entity-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the entity-wide financial statements. By doing so, readers may better understand the long-term impact of the Board's near-term financing decisions. Both the Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Board has two governmental funds (Operating Fund and Trust Account), both of which are special revenue funds. Information is presented in separate columns in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance for each fund.

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The Board adopts an annual operating budget for its Operating Fund. The Board's budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly. A budgetary comparison statement has been provided for the Operating Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 10 through 15 of this report.

Entity-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Board, assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by $3,482,792 at the close of the most recent fiscal year.

By far the largest portion of the Board's net position (83 percent) is unrestricted, meaning they may be used to meet the Board's ongoing obligations. The remaining portion of the Board's net position reflects its net investment in capital assets (16 percent) and other postemployment asset (1 percent). The Board uses capital assets to provide services to exam and license applicants, regulants and the public; consequently, these assets are not available for future spending.

Condensed Summary Statement of Net Position

	for the year ended June 30,		Increase/(Decrease)	
	2018	2017	Amount	Percent
Current and other assets	$ 4,403,543	$ 4,229,392	$ 174,151	4%
Capital assets, net of depreciation	554,322	99,301	455,021	458%
Total assets	4,957,865	4,328,693	629,172	15%
Deferred outflows of resources	259,312	300,965	(41,653)	-14%
Total assets and deferred outflows	5,217,177	4,629,658	587,519	13%
Current liabilities	168,233	158,788	9,445	6%
Long-term liabilities	1,430,919	1,203,760	227,159	19%
Total liabilities	1,599,152	1,362,548	236,604	17%
Deferred inflows of resources	135,233	31,000	104,233	336%
Total liabilities and deferred inflows	1,734,385	1,393,548	340,837	24%
Net position:				
Net investment in capital assets	554,322	99,301	455,021	458%
Restricted	38,000	-	-	100%
Unrestricted	2,890,470	3,136,809	(246,339)	-8%
Total net position	$ 3,482,792	$ 3,236,110	$ 246,682	8%

The Board's net position, as restated, increased by $246,682 during FY2018. This increase represents the degree to which licensing and examination fees exceeded operating expenses. Key elements of this increase in net position are as follows:

Condensed Summary of Changes in Net Position

	for the year ended June 30,		Increase/(Decrease)	
	2018	2017	Amount	Percent
Program revenues:				
Charges for services	$ 2,407,171	$ 2,637,681	$ (230,510)	-9%
General revenues:				
Monetary penalties	276,738	194,654	82,084	42%
Total revenues	2,683,909	2,832,335	(148,426)	-5%
Licensing and enforcement expenses	1,867,246	1,893,389	(26,143)	-1%
Increase (decrease) in net position before transfers	816,663	938,946	(122,283)	-13%
Transfers/(net)	(286,893)	(204,435)	(82,458)	40%
Increase in net position:	529,770	734,511	(204,741)	-28%
Net position - July 1, as adjusted	2,953,022	2,501,599	451,423	18%
Net position - June 30	$ 3,482,792	$ 3,236,110	$ 246,682	8%

Financial Analysis of the Entity's Special Revenue Funds

As noted earlier, the Board uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the Board's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Board's financing requirements and fee structure. In particular, unrestricted fund balances may serve as a useful measure of the Board's net resources available for spending at the end of the fiscal year.

Program Revenues and Expenditures

At the end of FY2018, the Board's special revenue funds reported combined ending fund balances of $4,238,169. The committed portion of the ending fund balances is $4,235,508 meaning it is available for spending at the Board's discretion.

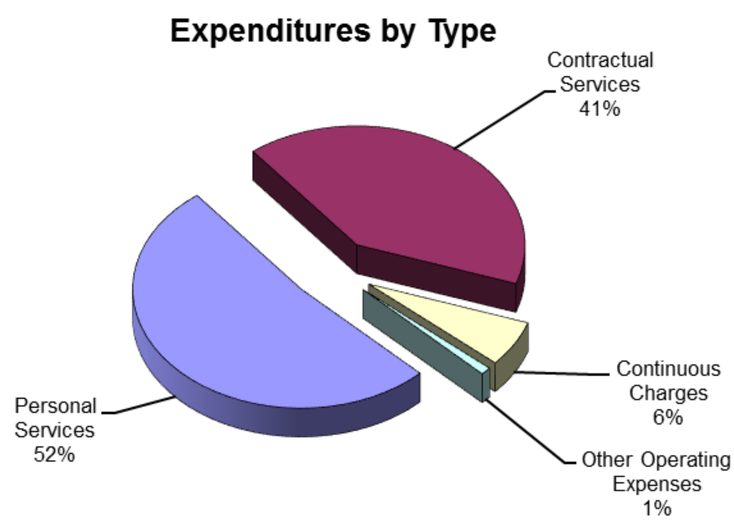
The Operating Fund is the primary operating fund of the Board. At the end of FY2018, the total fund balance of the Operating Fund was $537,362. Per Board Policy #1 – Trust Account, it is the policy of the Board to maintain funds equal to three months of the operating budget in the Operating Fund. Funds exceeding this amount are transferred to the Trust Account on at least a quarterly basis. During FY 2018 the Board transferred

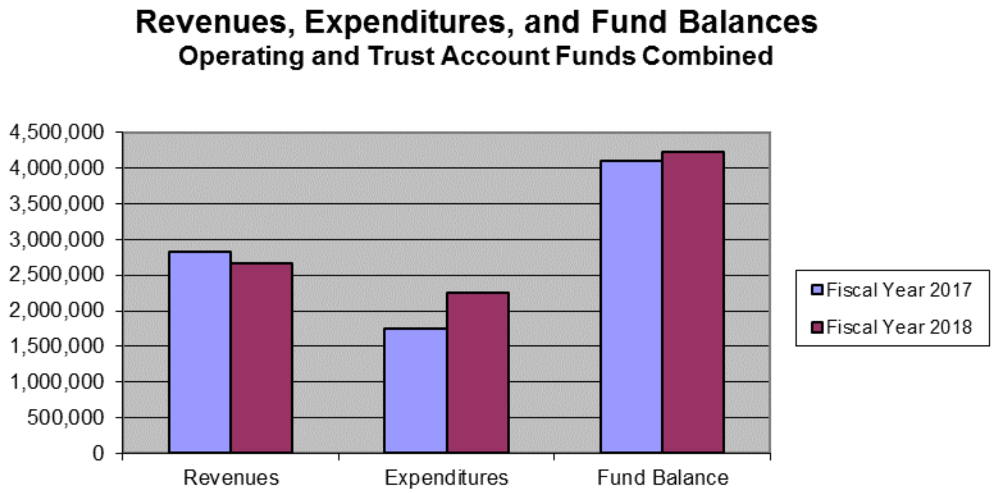
$24,435 from the Trust Account into the Operating Fund to support costs associated with the Board's implementation of a new licensing database system.

The total fund balance of the Board increased by $136,336 during FY2018. Key factors affecting the change in fund balance are as follows:

- Revenues exceeded expenditures by $410,900 in FY2018.
    - Revenues from licensing and examination fees decreased by $251,810 (10 percent) from the previous year. This is largely attributable to the elimination of the Active – Renewal Fee Delinquent status and its associated late fees. In FY2017, the Board had a higher than average number of licensees with this status and collected $422,500 in late fees as compared to $58,900 in FY 2018. There was also a decrease in application fee revenue related to an 8 percent decrease in the number of first time exam candidates applying to sit for the CPA exam.

- Total expenditures increased by $504,013 (29 percent) over the previous year. There was an increase of $452,263 (96%) in contractual services primarily related to system implementation expenses during FY 2018.





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Operating Fund Budgetary Highlights

The Board adopts an annual operating budget for its Operating Fund. The Board's budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly plus any pending budget execution transactions and amendments. The Board budgeted total expenditures of $2,417,446 and total revenue of $2,826,017, including $209,675 in monetary penalties to be deposited into the state's Literary fund. During the year, revenues were less than budgetary estimates due to the elimination of the Active- Renewal Fee Delinquent status as part of the Board's statue change to a single renewal date. Prior to the statue change, an individual or firm holding a Virginia CPA license had an additional 12-month period following the license renewal date in which the licensee or firm could renew and pay a late fee. Actual expenditures were less than budgetary estimates for the year.

Capital Assets

The Board's net investment in capital assets at June 30, 2018, totals $554,322 (net of accumulated depreciation). This is an increase of $455,021 from the prior year related to software construction in progress additions. The remaining portion of the capital asset amount consists of software costs for the Board's computerized licensing system, capitalized leasehold improvements and modular office furniture systems. Additional information on the Board's capital assets can be found in Note 6.

Economic Factors and Next Year's Budget and Rates

The Board's major source of revenue is licensing and examination fees. The Board experienced a slight increase in the number of licensed individuals and licensed firms in the FY2018. Revenue from licensing and examination fees decreased in FY2018 by $251,810 primarily related to the elimination of the Active – Renewal Fee Delinquent status and its associated late fees. The number of first time exam candidates applying to sit for the CPA exam also decreased (8%) in FY2018.

CPA License Holders

	At June 30, 2018	At June 30, 2017
Individuals	27,903	27,711
Firms	1,177	1,167
Total	29,080	28,878

On-going expenditures continue to increase for the Board primarily in the areas of personal services, information technology, and legal services. The Board also anticipates continued costs through FY2019 related to the implementation of the new licensing database system. All of these factors were considered in preparing the Board's budget for the fiscal year ending June 30, 2019.

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FINANCIAL STATEMENTS

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VIRGINIA BOARD OF ACCOUNTANCY

STATEMENT OF NET POSITION

As of June 30, 2018

With Comparative Figures for 2017

	Governmental Activities	
	2018	2017
Assets:		
Cash held by the Treasurer of Virginia (Note 4)	$ 4,324,565	$ 4,208,252
Accounts receivable (Note 5)	38,317	18,489
Prepaid items (Note 1E)	2,661	2,651
Net other postemployment benefit (Note 13)	38,000	-
Capital assets, net of accumulated depreciation (Note 6)	554,322	99,301
Total Assets	4,957,865	4,328,693
Deferred Outflow of Resources:		
Deferred outflows related to pension (Note 10)	200,090	300,965
Deferred outflows related to other postemployment benefit (Notes 11, 12, 13, and 14)	59,222	-
Total Deferred Outflows	259,312	300,965
Liabilities:		
Accounts payable	14,121	33,016
Accrued salaries payable	74,936	76,054
Due to the State Literary Fund (Note 5)	38,317	18,489
Long-term liabilities due within one year		
Compensated absences payable (Note 7)	36,208	31,229
Other postemployment liability (Note 14)	4,651	-
Long-term liabilities due in more than one year		
Compensated absences payable (Note 7)	28,202	44,760
Net pension liability (Note 10)	1,068,000	1,159,000
Net other postemployment liability (Notes 11, 12, 13, and 14)	334,717	-
Total Liabilities	1,599,152	1,362,548
Deferred Inflows of Resources:		
Deferred inflows related to pension (Note 10)	77,000	31,000
Deferred inflows related to other postemployment benefit (Notes 11, 12, 13, and 14)	58,233	-
Total Deferred Inflows	135,233	31,000
Net Position:		
Net investment in capital assets (Note 6)	554,322	99,301
Restricted for net other postemployment benefit (Note 13)	38,000	-
Unrestricted	2,890,470	3,136,809
Total Net Position	$ 3,482,792	$ 3,236,110

The accompanying Notes to Financial Statements are an integral part of this statement.

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VIRGINIA BOARD OF ACCOUNTANCY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018
With Comparative Figures for 2017

	Governmental Activities			
	2018			2017
		Program Revenues	Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services		
Functions/programs:				
Governmental activities				
Licensing, examination and enforcement functions	$ 1,867,246	$ 2,407,171	$ 539,925	$ 744,292
General revenues:				
Monetary penalties			276,738	194,654
Transfers:				
Transfers to the State General Fund			(10,155)	(9,781)
Transfers to the State Literary Fund			(276,738)	(194,654)
Total general revenues and transfers			(10,155)	(9,781)
Changes in net position			529,770	734,511
Net position - beginning of year			3,236,110	2,501,599
Restatement (Note 2)			(283,088)	-
Net position - beginning of year, adjusted			2,953,022	-
Net position, June 30			$ 3,482,792	$ 3,236,110

The accompanying Notes to Financial Statements are an integral part of this statement.

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VIRGINIA BOARD OF ACCOUNTANCY
BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2018
With Comparative Figures for 2017

	Special Revenue Funds			
	Operating Fund	Trust Account	Total 2018	Total 2017
Assets:				
Cash held by the Treasurer of Virginia (Note 4)	$ 623,758	$ 3,700,807	$ 4,324,565	$ 4,208,252
Accounts receivable (Note 5)	38,317	-	38,317	18,489
Prepaid items (Note 1E)	2,661	-	2,661	2,651
Total assets	$ 664,736	$ 3,700,807	$ 4,365,543	$ 4,229,392
Liabilities, deferred inflows of resources and fund balance:				
Liabilities:				
Accounts payable	14,121	-	14,121	33,016
Accrued salaries payable	74,936	-	74,936	76,054
Due to the State Literary Fund	25,988	-	25,988	17,933
Total liabilities	115,045	-	115,045	127,003
Deferred Inflows of Resources:				
Revenue not currently available	12,329	-	12,329	556
Total deferred inflows of resources	12,329	-	12,329	556
Fund balance:				
Nonspendable:				
Prepaid insurance/other	2,661	-	2,661	2,651
Committed for:				
Board operations	534,701	3,700,807	4,235,508	4,099,182
Total fund balance	537,362	3,700,807	4,238,169	4,101,833
Total liabilities, deferred inflows of resources and fund balance	$ 664,736	$ 3,700,807	$ 4,365,543	$ 4,229,392

The accompanying Notes to Financial Statements are an integral part of this statement.

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VIRGINIA BOARD OF ACCOUNTANCY
BALANCE SHEET, continued
GOVERNMENTAL FUNDS
As of June 30, 2018
With Comparative Figures for 2017

	Special Revenue Funds	
	Total	
	2018	2017
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Total fund balance (per page 10)	$ 4,238,169	$ 4,101,833
Capital assets reported for governmental activities are not financial resources and, therefore, are not reported in the funds. (Note 5)	554,322	99,301
Restricted net other postemployment asset is not a financial resource and, therefore is not reported in the funds. (Note 13)	38,000	-
Long-term liability for compensated absences, net pension liability, and net other postemployment liability are not due and payable in the current period and therefore are not reported in the funds. (Note 7, Note 10, and Notes 11, 12, 13, and 14)	(28,202)	(44,760)
	(36,208)	(31,229)
	(1,068,000)	(1,159,000)
	(339,368)	-
Deferred inflows and outflows related to pension activity are not required to be reported in the funds but are required to be reported at the government-wide level. (Note 10)		
Deferred outflow - Employer contributions made subsequent to measurement date	104,090	99,965
Deferred outflow - Changes in proportion and differences between employer contributions and proportionate share of contributions	84,000	122,000
Deferred outflow - Net difference between projected and actual earnings on pension plan investments	-	74,000
Deferred outflow - Difference between expected and actual experience	2,000	5,000
Deferred outflow - Change in assumptions	10,000	-
Deferred inflow - Net difference between projected and actual earnings on pension plan investments	(31,000)	(31,000)
Deferred inflow - Net difference between projected and actual earnings on pension plan investments	(46,000)	-
Deferred inflows and outflows related to other postemployment activity are not required to be reported in the funds but are required to be reported at the government-wide level. (Notes 11, 12, 13, and 14)		
Deferred outflow - Change in proportion	36,753	-
Deferred outflow - Amounts associated with transactions subsequent to the measurement date	22,469	-
Deferred inflow - Differences between actual and expected experience	(9,054)	-
Deferred inflow - Change in assumptions	(44,179)	-
Deferred inflow - Net difference between projected and actual earnings on plan investments	(5,000)	-
Net position of governmental activities (page 8)	$ 3,482,792	$ 3,236,110

The accompanying Notes to Financial Statements are an integral part of this statement.

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VIRGINIA BOARD OF ACCOUNTANCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018
With Comparative Figures for 2017

	Special Revenue Funds			
	Operating Fund	Trust Account	Total 2018	Total 2017
Revenues:				
Licensing and examination fees	$ 2,351,510	$ -	$ 2,351,510	$ 2,603,320
Interest income	7,134	47,640	54,774	35,450
Monetary penalties	264,409	-	264,409	194,098
Other revenues	887	-	887	-
Total revenues	2,623,940	47,640	2,671,580	2,832,868
Expenditures:				
Licensing, examination and enforcement functions:				
Personal services	1,173,054	-	1,173,054	1,120,127
Contractual services	924,263	-	924,263	472,000
Supplies and materials	11,900	-	11,900	15,920
Transfer payments	848	-	848	1,273
Continuous charges	140,447	-	140,447	135,318
Equipment purchases	10,168	-	10,168	12,029
Total expenditures	2,260,680	-	2,260,680	1,756,667
Excess of revenues over expenditures	363,260	47,640	410,900	1,076,201
Other financing sources/(uses):				
Transfers to/from other funds (Note 8)	24,435	(24,435)	-	-
Transfers to the State General Fund	(10,155)	-	(10,155)	(38,781)
Transfers to the State Literary Fund	(264,409)	-	(264,409)	(194,098)
Total other financing sources and uses	(250,129)	(24,435)	(274,564)	(232,879)
Net change in fund balance	113,131	23,205	136,336	843,322
Fund balance, July 1	424,231	3,677,602	4,101,833	3,258,511
Fund balance, June 30	$ 537,362	$ 3,700,807	$ 4,238,169	$ 4,101,833

The accompanying Notes to Financial Statements are an integral part of this statement.

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VIRGINIA BOARD OF ACCOUNTANCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE, continued
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018
With Comparative Figures for 2017

	Special Revenue Funds	
	Total	
	2018	2017
Amounts reported for governmental activities in the Statement of Activities are different because:		
Net change in fund balance (page 12)	$ 136,336	$ 843,322
Governmental funds report revenue when they are collected within sixty days of the end of the current fiscal year. However, in the Statement of Activities revenues are recorded when earned. This is the amount of revenue not currently available that is not due to the State Literary Fund less prior year revenue not currently available that is not due to the State Literary Fund.	-	(1,089)
Governmental funds report equipment purchases as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of equipment purchases less depreciation expense in the current period.	455,021	(42,633)
The expense associated with compensated absences reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds.	11,579	(25,549)
Deferred inflows and outflows related to pension activity are not required to be reported in the funds but are required to be reported at the government-wide level.		
Change in deferred outflow - Employer contributions made subsequent to measurement date.	4,125	2,460
Change in deferred outflow - Changes in proportion and differences between employer contributions proportionate share of contributions	(38,000)	(20,000)
Change in deferred outflow - Net difference between projected and actual earnings on pension plan	(74,000)	74,000
Change in deferred outflow - Change in assumptions	10,000	-
Change in deferred outflow - Differences between expected and actual experience	(3,000)	(2,000)
Change in deferred inflow - Net difference between projected and actual earnings on pension plan	(46,000)	43,000
Change in net pension liability	91,000	(137,000)
Deferred inflows and outflows related to other postemployment activity are not required to be reported in the funds but are required to be reported at the government-wide level.		
Deferred outflow - Change in proportion	36,753	-
Deferred outflow - Amounts associated with transactions subsequent to the measurement date	(1,370)	-
Deferred inflow - Differences between actual and expected experience	(9,054)	-
Deferred inflow - Net difference between projected and actual earnings on plan investments	(5,000)	
Deferred inflow - Change in assumptions	(44,179)	-
Change in net other postemployment liability	5,559	-
Changes in net position of governmental activities (page 9)	$ 529,770	$ 734,511

The accompanying Notes to Financial Statements are an integral part of this statement.

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VIRGINIA BOARD OF ACCOUNTANCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
PREPARED ON THE BUDGETARY (CASH BASIS) OF ACCOUNTING
SPECIAL REVENUE FUND
For the Year Ended June 30, 2018
With Comparative Figures for 2017

	Operating Fund				
	2018				2017
	Original Budget	Final Budget	Actual Amounts	Final Budget/ Actual Variance Positive/ (Negative)	Actual Amounts
Revenues:					
Licensing and examination fees	$ 2,616,342	$2,616,342	$ 2,351,595	$ (264,747)	$2,604,132
Interest income	-	-	7,134	7,134	6,679
Monetary penalties	209,675	209,675	256,354	46,679	189,258
Other revenues	-	-	887	887	-
Total revenues	2,826,017	2,826,017	2,615,970	(210,047)	2,800,069
Expenditures:					
Licensing, examination and enforcement functions:					
Personal services	1,320,796	1,320,796	1,174,172	146,624	1,103,142
Contractual services	419,819	919,819	933,694	(13,875)	459,835
Supplies and materials	16,745	16,745	11,900	4,845	15,920
Transfer payments	1,300	1,300	848	452	1,273
Continuous charges	137,909	137,909	140,457	(2,548)	135,308
Equipment purchases	20,877	20,877	10,168	10,709	12,029
Total expenditures	1,917,446	2,417,446	2,271,239	146,207	1,727,507
Excess of revenues over expenditures	908,571	408,571	344,731	(63,840)	1,072,562
Other financing sources/(uses):					
Transfers from/(to) other funds (Note 7)	-	24,435	24,435	-	(840,930)
Transfers to the State General Fund	(10,155)	(10,155)	(10,155)	-	(38,781)
Transfers to the State Literary Fund	(219,947)	(219,947)	(256,354)	(36,407)	(189,258)
Total other financing sources and uses	(230,102)	(205,667)	(242,074)	(36,407)	(1,068,969)
Net change in fund balance	678,469	202,904	102,657	(100,247)	3,593
Fund balance, July 1	511,346	511,346	511,346	-	507,753
Fund balance, June 30	$ 1,189,815	$ 714,250	$ 614,003	$ (100,247)	$ 511,346

The accompanying Notes to Financial Statements are an integral part of this statement.

VIRGINIA BOARD OF ACCOUNTANCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE, continued
PREPARED ON THE BUDGETARY (CASH BASIS) OF ACCOUNTING
SPECIAL REVENUE FUND
For the Year Ended June 30, 2018
With Comparative Figures for 2017

This statement presents comparisons of the legally adopted budget prepared on the cash basis of accounting with actual data prepared on the cash basis. Actual amounts reported on the modified accrual basis of accounting are different because:

	Operating Fund	
	2018 Actual Amounts	2017 Actual Amounts
Net change in fund balance (page 14)	$ 102,657	$ 3,593
Accrued revenues on modified accrual basis	7,970	4,028
Accrued expenditures on modified accrual basis	10,559	(29,160)
Accrued transfers on modified accrual basis	(8,055)	(4,840)
Change in fund balance on modified accrual basis (page 12)	$ 113,131	$ (26,379)

The accompanying Notes to Financial Statements are an integral part of this statement.

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NOTES TO FINANCIAL STATEMENTS

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Board regulates the practice of accounting in Virginia, protecting and serving the citizens of the Commonwealth by administering the laws and regulations for their financial health, safety, and welfare. The Board's major activities include reviewing and approving applications to ensure applicants are competent to enter the public accounting profession; determining continued qualifications for licensure; conducting audits of continuing professional education; and adjudicating enforcement cases and disciplining those who do not follow acceptable, ethical, or professional standards.

A separate report is prepared for the Commonwealth, which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Board is an agency of the Commonwealth and is included in the Commonwealth's Comprehensive Annual Financial Report.

B. Fund Accounting

The activities of the Board are accounted for in its special revenue funds. Special revenue funds account for transactions related to resources received and used for committed or specific purposes.

The Board has two special revenue funds. The Operating Fund is the Board's primary operating fund. It accounts for all financial resources of the Board, except those resources held in the Trust Account. The Trust Account is to be used for the study, research, investigation, and adjudication of matters involving possible violations of statutes or regulations relating to the profession of public accounting, or for any other purpose the Board determines is relevant to its statutory purposes and cannot otherwise be funded through its Operating Fund. Both funds are considered major funds of the Board.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Entity-Wide Financial Statements – The entity-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the Board's financial activities. For the most part, the effect of interfund activity has been removed from these statements. The Statement of Activities demonstrates the degree to which direct expenses are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues consist of charges to exam applicants and regulants. Other revenues not included among program revenues are reported instead as general revenues.

The entity-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows.

Governmental Fund Financial Statements – The financial statements also include separate fund financial statements. The Operating Fund and Trust Account are reported in separate columns in the fund financial statements. The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within sixty days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due.

D. Fund Balance

With the implementation of GASB No. 54, the fund balance classifications are reported as Non-spendable, Restricted, Committed, Assigned, and Unassigned. The Non-spendable fund balance includes amounts that cannot be spent because they are either a) not in spendable form or b) legally required to be maintained intact such as the corpus of a permanent fund. The Committed fund balance includes amounts that can be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority through enabling legislation. The highest level of decision authority for the Commonwealth is the General Assembly and the Governor.

E. Prepaid Items

Prepaid assets for rent, insurance, and similar items are recognized when purchased and expensed when used.

F. Summarized Comparative Data

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Board's financial statements for the year ended June 30, 2017, from which the summarized information was derived. The summarized comparative information presented does not include the necessary adjustments related to the implementation of GASB Statement No. 75. *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB). The information needed to make these adjustments is not available for prior years.

G. Deferred Inflows and Outflows of Resources

Deferred outflows of resources are defined as the consumption of net assets applicable to a future reporting period. The deferred outflows of resources have a positive effect on net position similar to assets.

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Deferred inflows of resources are defined as the acquisition of net assets applicable to a future reporting period. The deferred inflows of resources have a negative effect on net position similar to liabilities.

H. Pensions

The Virginia Retirement System (VRS) State Employee Retirement Plan is a single employer pension plan that is treated like cost-sharing plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Virginia Retirement System (VRS) State Employee Retirement Plan; and the additions to/deductions from the VRS State Employee Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments held by VRS are reported at fair value.

I. State Employee Health Insurance Credit Program (OPEB)

The VRS State Employee Health Insurance Credit Program is a single employer plan that is presented as a multiple-employer, cost-sharing plan. The State Employee Health Insurance Credit Program was established pursuant to §51.1-1400 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The State Employee Health Insurance Credit Program is a defined benefit plan that provides a credit toward the cost of health insurance coverage for retired state employees. For purposes of measuring the net State Employee Health Insurance Credit Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the State Employee Health Insurance Credit Program OPEB, and the State Employee Health Insurance Credit Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) State Employee Health Insurance Credit Program; and the additions to/deductions from the VRS State Employee Health Insurance Credit Program's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

J. Group Life Insurance Program (OPEB)

The VRS Group Life Insurance Program is a multiple employer, cost- sharing plan. It provides coverage to state employees, teachers, and employees of participating political subdivisions. The Group Life Insurance Program was established pursuant to §51.1-500 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The Group Life Insurance Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. For purposes of measuring the net Group Life Insurance Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Group Life Insurance Program OPEB, and Group Life Insurance Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System

(VRS) Group Life Insurance program OPEB and the additions to/deductions from the VRS Group Life Insurance Program OPEB's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

K. Disability Insurance Program (OPEB)

The VRS Disability Insurance Program (Virginia Sickness and Disability Program) is a single employer plan that is presented as a multiple-employer, cost- sharing plan. The Disability Insurance Program was established pursuant to §51.1-1100 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The Disability Insurance Program is a managed care program that provides sick, family and personal leave and short-term and long-term disability benefits for state employees. For purposes of measuring the net Disability Insurance Program OPEB liability (asset), deferred outflows of resources and deferred inflows of resources related to the Disability Insurance Program OPEB, and Disability Insurance Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Disability Insurance Program OPEB Plan and the additions to/deductions from the VRS Disability Insurance Program OPEB Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

L. Pre-Medicare Retiree Healthcare (OPEB)

The Commonwealth of Virginia State Health Plans Program for Pre-Medicare Retirees (Pre-Medicare Retiree Healthcare Plan) is a single-employer defined benefit OPEB plan that is treated like a cost sharing plan for financial reporting purposes, and is administered by the Department of Human Resource Management. The Pre-Medicare Retiree Healthcare Plan was established by Title 2.2, Chapter 28 of the Code of Virginia for retirees who are not yet eligible to participate in Medicare. Benefit payments are recognized when due and payable in accordance with benefit terms. There are no assets accumulated in a trust to pay benefits.

2. CHANGE IN ACCOUNTING PRINCIPLE

The Board implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* in the fiscal year ended June 30, 2018. The implementation of the statement required the Board to record beginning net OPEB liabilities and the effects on net position of contributions made by the Board. The Board could not practically determine the period-specific details of the change on all prior periods presented; therefore, the cumulative effect of the change was applied to the beginning balances of the current year as follows:

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	(As Previously Reported) June 30, 2017	Restatement	(As Restated) June 30, 2017
Deferred Outflows of Resources	$ -	$ 23,839	$ 23,839
Liabilities			
Other postemployment benefit liability	-	(306,927)	(306,927)
Net Position			
Net investment in capital asset	99,301	-	99,301
Unrestricted	3,136,809	(283,088)	2,853,721
Total Net Position	$ 3,236,110	$ (283,088)	$ 2,953,022

3. BUDGETARY INFORMATION

The Board adopts an annual operating budget for its Operating Fund. The Board's budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly. Unexpended appropriations at the end of the fiscal year generally lapse. However, they may be reappropriated for expenditure in the following fiscal year. The Governor, as required by the Code of Virginia, submits a budget composed of all proposed expenditures for the state, and of estimated revenues and borrowing for a biennium, to the General Assembly.

The budget is prepared on a biennial basis; however, the budget contains separate appropriations for each year within the biennial budget, as approved by the General Assembly, and signed into law by the Governor. For management control purposes, the budget is controlled at the program level.

Appropriations of special revenue funds may allow expenditures in excess of the original appropriations to the extent that revenues of the funds exceed original budget estimates and such additional expenditures are approved by the Governor through supplemental appropriations.

4. CASH WITH THE TREASURER OF VIRGINIA

All state funds of the Board are held by the Treasurer of Virginia, pursuant to Section 2.2-1800, Code of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Each fund's equity in pooled state funds is reported as "Cash Held by the Treasurer of Virginia" and is not categorized as to credit risk.

5. RECEIVABLES AND DUE TO THE STATE LITERARY FUND

The Board levies and collects penalties and administrative fees from regulants and non-regulants found guilty of violating the Board's statutes or regulations. The proceeds from penalties are deposited into the state's Literary Fund in accordance with Section 19.2-353, Code of Virginia. The proceeds from administrative fees are deposited into the Board's Operating Fund. Consequently, receivables are partially offset by a corresponding amount Due to the State Literary Fund and are not available to meet the Board's current operating needs. At June 30, 2018, the amount Due to the State Literary Fund for collections on monetary penalties was $38,317.

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	June 30, 2018
Gross receivables	$ 92,025
Less: allowance for doubtful	(53,708)
Net Receivables	$ 38,317

6. CAPITAL ASSETS

The following presents capital activity for the year ended June 30, 2018:

	Balance at June 30, 2017	Additions	Reductions	Balance at June 30, 2018
Nondepreciable capital assets:				
Construction-in-Progress	$ -	$ 496,073	$ -	496,073
Total nondepreciable assets	-	496,073	-	496,073
Depreciable capital assets:				
Software	183,388	-	-	183,388
Tenant improvements	101,534	-	-	101,534
Equipment	72,260	-	-	72,260
Total depreciable assets	357,182	-	-	357,182
Less accumulated depreciation for:				
Software	(154,351)	(18,339)	-	(172,690)
Tenant improvements	(79,058)	(15,487)	-	(94,545)
Equipment	(24,472)	(7,226)	-	(31,698)
Total accumulated depreciation	(257,881)	(41,052)	-	(298,933)
Depreciable capital assets, net	99,301	(41,052)	-	58,249
Total capital assets, net	$ 99,301	$ 455,021	$ -	$ 554,322

The Board capitalizes all software and equipment with an initial, individual cost of $5,000 or more and an estimated useful life in excess of one year. This includes capitalizing personal service costs and vendor payments associated with developing its licensing software for internal use.

Capital assets are reported at historical cost less accumulated depreciation. Depreciation of software and equipment costs is expensed on a straight-line basis over their estimated useful life of ten years. Depreciation of tenant improvement costs is expensed on a straight-line basis over the ten year life of the lease agreement.

7. COMPENSATED ABSENCES

Compensated absences reflected in the Statement of Net Position represent the amounts of vacation, sick, and compensatory leave earned by the Board's employees but not taken at June 30, 2018. The amount reflects all earned vacation, sick, and compensatory leave payable under the Commonwealth's leave payout policies. Information on the Commonwealth's leave payout policies is available at the statewide level in the Commonwealth's Comprehensive Annual Financial Report.

Balance at June 30, 2017	Increases	Decreases	Balance at June 30, 2018
$75,989	$53,566	($65,145)	$64,410
		Due within one year	(36,208)
		Due in more than one year	$28,202

8. TRANSFERS TO AND FROM THE TRUST ACCOUNT

In accordance with § 54.1-4405.1 of the Code of Virginia, a special nonreverting fund known as the Board of Accountancy Trust Account (the Trust Account) was created. The purpose of the Trust Account is to provide a supplemental source of funds to the Board on a timely basis for its use in the study, research, investigation or adjudication of matters involving possible violations of the statutes or regulations pertaining to the profession of public accounting or for any other purpose that the Board determines is germane to its statutory purposes and cannot otherwise be funded through the Operating Fund. During FY 2018 the Board transferred a total of $24,435 from the Trust Account.

9. COMMITMENTS

As of June 30, 2018, the Board had contractual commitments of approximately $550,000 related to the information systems project. These remaining commitments represent the unperformed portion of the contracts and, as such, have not been accrued as expenses or liabilities on the Board's financial statements.

On August 2, 2007, the Board moved its offices to the Perimeter Center Building at 9960 Mayland Drive, Henrico, VA 23233. The move brought the Board together with five other state agencies to facilitate the use of shared space and services. On August 29, 2007, the Board entered into a ten-year operating lease for the new space. The Perimeter Center Building was sold to a new owner in May of 2014. Effective April 1, 2015, the term of the lease was extended to January 31, 2025 which included a rent reduction and improvements which included an office space expansion for the Board in FY 2015. The rent reduction and increased costs related to the expansion are included in the future obligations listed below.

The Board has, as of June 30, 2018, the following future obligations due under the Perimeter Center Building lease agreement:

DRAFT

Year Ending June 30,	Amount	
2019	$ 93,416	
2020	95,918	
2021	98,488	
2022	101,128	
2023	103,842	
2024	106,630	
2025	63,445	(Lease expires on 1/31/2025)
	$ 662,867	

10. DEFINED BENEFIT PENSION PLAN

Plan Description

All full-time, salaried permanent employees of state agencies are automatically covered by the VRS State Employee Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer are paying contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees in the VRS State Employee Retirement Plan – Plan 1, Plan 2, and, Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out below:

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	**About Plan 2** Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
		formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund. **Hybrid Opt-In Election** VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	**Eligible Members** Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013. **Hybrid Opt-In Election** Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • State employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014 ***Non-Eligible Members** Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Members of the Virginia Law Officers' Retirement System (VaLORS) Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.

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RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Retirement Contributions State employees, excluding state elected officials, and optional retirement plan participants, contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	**Retirement Contributions** State employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.	**Retirement Contributions** A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the	**Creditable Service** Same as Plan 1.	**Creditable Service** **<u>Defined Benefit Component:</u>** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count

DRAFT

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
health insurance credit in retirement, if the employer offers the health insurance credit.		toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. **<u>Defined Contributions Component:</u>** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	**Vesting** Same as Plan 1.	**Vesting** **<u>Defined Benefit Component:</u>** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.
		<u>Defined Contributions Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the

DRAFT

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
		employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** **<u>Defined Benefit Component:</u>** See definition under Plan 1

DRAFT

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.		**Defined Contribution Component:** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.	**Service Retirement Multiplier** Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non- hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.	**Service Retirement Multiplier** **Defined Benefit Component:** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. **Defined Contribution Component:** Not applicable.

DRAFT

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Normal Retirement Age **VRS:** Age 65.	**Normal Retirement Age VRS:** Normal Social Security retirement age.	**Normal Retirement Age** **Defined Benefit Component:** **VRS:** Same as Plan 2. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.	**Earliest Unreduced Retirement Eligibility** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.	**Earliest Reduced Retirement Eligibility** Age 60 with at least five years (60 months) of creditable service.	**Earliest Reduced Retirement Eligibility** **Defined Benefit Component:** Age 60 with at least five years (60 months) of creditable service. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

DRAFT

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.	**Cost-of-Living Adjustment (COLA) in Retirement** The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.	**Cost-of-Living Adjustment (COLA) in Retirement** **<u>Defined Benefit Component:</u>** Same as Plan 2. **<u>Defined Contribution Component:</u>** Not applicable.
<u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.	**<u>Eligibility:</u>** Same as Plan 1	**<u>Eligibility:</u>** Same as Plan 1 and Plan 2.
<u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement	**<u>Exceptions to COLA Effective Dates:</u>** Same as Plan 1	**<u>Exceptions to COLA Effective Dates:</u>** Same as Plan 1 and Plan 2.

DRAFT

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long- term disability under the Virginia Sickness and Disability Program (VSDP). • The member Is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.		
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. Most state employees are	**Disability Coverage** Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.	**Disability Coverage** State employees (including Plan 1 and Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

DRAFT

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** **<u>Defined Benefit Component:</u>** Same as Plan 1, with the following exception: • Hybrid Retirement Plan members are ineligible for ported service. **<u>Defined Contribution Component:</u>** Not applicable.

Contributions

The contributions requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to state agencies by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, the 5.00% member contribution was paid by the employer. Beginning July 1, 2012, state employees were required to pay the 5.00% member contribution and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. The Board’s contractually required contribution rate for the year ended June 30, 2018, was 13.49% of covered employee compensation for employees in the VRS State Employee Retirement Plan. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The contribution rate for the VRS

DRAFT

State Employee Retirement Plan also reflects the transfer in June 2016 of $162,406,273 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the Board to the VRS State Employee Retirement Plan were $104,090 and $99,965 for the years ended June 30, 2018, and June 30, 2017, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the Board reported a liability of $1,068,000 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2017, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The Board's proportion of the Net Pension Liability was based on the Board's actuarially determined employer contributions to the pension plan for the year ended June 30, 2017, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the Board's proportion of the VRS State Employee Retirement Plan was 0.01833% as compared to 0.01759% at June 30, 2016.

For the year ended June 30, 2018, the Board recognized pension expense of $158,000 for the VRS State Employee Retirement Plan. Since there was a change in proportionate share between June 30, 2016, and June 30, 2017, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 2,000	$ 31,000
Net difference between projected and actual earnings on pension plan investments	-	46,000
Change in assumptions	10,000	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	84,000	-
Employer contributions subsequent to the measurement date	104,090	-
Total	$ 200,090	$ 77,000

$104,090 reported as deferred outflows of resources related to pensions resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2019	$	9,000
2020	$	29,000
2021	$	11,000
2022	$	(30,000)
2023	$	-

Actuarial Assumptions

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5%
Salary increases, including inflation	3.5% - 5.35%
Investment rate of return	7.0%, net of pension plan investment expenses, Including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Pre-Retirement:

RP-2014 Employee Rates to age 80, Health Annuitant Rates to 81 and older projected with Scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males 115% of rates; females 130% of rates.

DRAFT

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 25%

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2017, NPL amounts for the VRS State Employee Retirement Plan are as follows (amounts expressed in thousands):

Total Pension Liability	$	23,617,412
Plan Fiduciary Net Position		17,789,888
Employers' Net Pension Liability	$	5,827,524
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		75.33%

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by

DRAFT

adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	**Target Allocation**	**Arithmetic Long-Term Expected Rate of Return**	**Weighted Ave rage Long-Term Expected Rate of Return**
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
	Inflation		2.50%
	* Expected arithmetic nominal return		7.30%

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the Board for the VRS State Employee Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the Long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

DRAFT

Sensitivity of the State Board's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following represents the Board's proportionate share of the VRS State Employee Retirement Plan net pension liability calculated using the discount rate of 7.00%, as well as what the state Board's proportionate share of the net position liability would be if it were calculated using a stated discount rate that is one-percentage-point lower (6.00%) or one-percentage-point higher (8.00%) than the current rate:

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Board's proportionate share of the VRS State Employee Retirement Plan net pension liability	$1,578,000	$1,068,000	$640,000

Pension Plan Fiduciary Net Position

Detailed information about the VRS State Employee Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

11. STATE EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM (OPEB)

Plan Description

All full-time, salaried permanent employees of state agencies are automatically covered by the VRS State Employee Health Insurance Credit Program. This plan is administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

The specific information about the State Health Insurance Credit Program OPEB, including eligibility, coverage and benefits is set out in the table below:

STATE EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM (HIC) PLAN PROVISIONS

Eligible Employees

The State Employee Retiree Health Insurance Credit Program was established January 1, 1990 for retired state employees covered under VRS, SPORS, ValORS and JRS who retire with at least 15 years of service credit.

Eligible employees are enrolled automatically upon employment. They include:

- Full-time and part-time permanent salaried state employees covered under VRS, SPORS, VaLORS and JRS.

Benefit Amounts

The State Employee Retiree Health Insurance Credit Program provides the following benefits for eligible employees:

- **At Retirement** – For State employees who retire, the monthly benefit is $4.00 per year of service per month with no cap on the benefit amount.
- **Disability Retirement** – For State employees, other than state police officers, who retire on disability or go on long-term disability under the Virginia Sickness and Disability Program (VSDP), the monthly benefit is $120.00 or $4.00 per year of service, whichever is higher.

Health Insurance Credit Program Notes:

- The monthly Health Insurance Credit benefit cannot exceed the individual premium amount.
- Employees who retire after being on long-term disability under VSDP must have at least 15 years of service credit to qualify for the health insurance credit as a retiree.

Contributions

The contribution requirement for active employees is governed by §51.1-1400(D) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. The Board's contractually required employer contribution rate for the year ended June 30, 2018 was 1.18% of covered employee compensation for employees in the VRS State Employee Health Insurance Credit Program. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the Board to the VRS State Employee Health Insurance Credit Program were $9,103 and $8,744 for the years ended June 30, 2018 and June 30, 2017, respectively.

State Employee Health Insurance Credit Program OPEB Liabilities, State Employee Health Insurance Credit Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to State Employee Health Insurance Credit Program OPEB

At June 30, 2018, the Board reported a liability of $104,000 for its proportionate share of the VRS State Employee Health Insurance Credit Program Net OPEB Liability. The Net VRS State Employee Health Insurance Credit Program OPEB Liability was measured as of June 30, 2017

DRAFT

and the total VRS State Employee Health Insurance Credit Program OPEB liability used to calculate the Net VRS State Employee Health Insurance Credit Program OPEB Liability was determined by an actuarial valuation as of that date. The Board's proportion of the Net VRS State Employee Health Insurance Credit Program OPEB Liability was based on the Board's actuarially determined employer contributions to the VRS State Employee Health Insurance Credit Program OPEB plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the Board's proportion of the VRS State Employee Health Insurance Credit Program 0.01139% as compared to 0.01106% at June 30, 2016.

For the year ended June 30, 2018, the Board recognized VRS State Employee Health Insurance Credit Program OPEB expense of $12,000. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017 a portion of the VRS State Employee Health Insurance Credit Program Net OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to the VRS State Employee Health Insurance Credit Program OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Net difference between projected and actual earnings on State HIC OPEB plan investments	-	-
Changes in assumptions	-	1,000
Changes in proportionate share		-
Employer contributions subsequent to the measurement date	9,103	-
Total	$ 9,103	$ 1,000

$9,103 reported as deferred outflows of resources related to the State Employee HIC OPEB resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the Net State Employee HIC OPEB Liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the State Employee HIC OPEB will be recognized in the State Employee HIC OPEB expense in future reporting periods as follows:

Year ended June 30:		
2019	$	1,000
2020	$	-
2021	$	-
2022	$	-
2023	$	-
Thereafter	$	-

DRAFT

Actuarial Assumptions

The total State Employee HIC OPEB liability for the VRS State Employee Health Insurance Credit Program was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5 percent
Salary increases, including inflation – General state employees	3.5 percent – 5.35 percent
Investment rate of return	7.0 percent, net of plan investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of the OPEB liabilities.

Mortality rates – General State Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

DRAFT

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP- 2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

Mortality rates – SPORS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

Mortality rates – VaLORS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

Mortality rates – JRS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% compounding increase from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with Scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

Net State Employee HIC OPEB Liability

The net OPEB liability (NOL) for the State Employee Health Insurance Credit Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the VRS State Employee Health Insurance Credit Program is as follows (amounts expressed in thousands):

State Employee HIC OPEB Plan

Total State Employee HIC OPEB Liability	$ 990,028
Plan Fiduciary Net Position	79,516
State Employee net HIC OPEB Liability (Asset)	$ 910,512
Plan Fiduciary Net Position as a Percentage of the Total State Employee HIC OPEB Liability	8.03%

The total State Employee HIC OPEB liability is calculated by the System's actuary, and the plan's fiduciary net position is reported in the System's financial statements. The net State Employee HIC OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on VRS System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of VRS System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

DRAFT

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
	Inflation		2.50%
* Expected arithmetic nominal return			7.30%

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total State Employee HIC OPEB was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by the Board for the VRS State Employee Health Insurance Credit Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the State Employee HIC OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total State Employee HIC OPEB liability.

Sensitivity of the Board's Proportionate Share of the State Employee HIC Net OPEB Liability to Changes in the Discount Rate

The following presents the Board's proportionate share of the VRS State Employee Health Insurance Credit Program net HIC OPEB liability using the discount rate of 7.00%, as well as what the Board's proportionate share of the net HIC OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Board's proportionate share of the VRS State Employee HIC OPEB Plan Net HIC OPEB Liability	$115,000	$104,000	$94,000

State Employee HIC OPEB Fiduciary Net Position

Detailed information about the VRS State Employee Health Insurance Credit Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

12. GROUP LIFE INSURANCE PROGRAM (OPEB)

Plan Description

All full-time, salaried permanent employees of the state agencies, teachers and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance Program upon employment. This plan is administered by the Virginia Retirement System (the System), along with pensions and other OBEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic Group Life Insurance benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the Group Life Insurance Program OPEB.

The specific information for Group Life Insurance Program OPEB, including eligibility, coverage and benefits is set out in the table below:

DRAFT

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS

Eligible Employees

The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement:

- City of Richmond
- City of Portsmouth
- City of Roanoke
- City of Norfolk
- Roanoke City Schools Board

Basic group life insurance coverage is automatic upon employment. Coverage end for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.

Benefit Amounts

The benefits payable under the Group Life Insurance Program have several components.

- **<u>Natural Death Benefit</u>** – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled.
- **<u>Accidental Death Benefit</u>** – The accidental death benefit is double the natural death benefit.
- **<u>Other Benefit Provisions</u>** – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include:
  - Accidental dismemberment benefit
  - Safety belt benefit
  - Repatriation benefit
  - Felonious assault benefit
  - Accelerated death benefit option

Reduction in benefit Amounts

The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.

Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)

For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at $8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently $8,111.

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Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% X 60%) and the employer component was 0.52% (1.31% X 40%). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the Group Life Insurance Program from the Board were $4,043 and $3,833 for the years ended June 30, 2018 and June 30, 2017, respectively.

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB

At June 30, 2018, the Board reported a liability of $60,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the Board's proportion was 0.00399% as compared 0.00387% at June 30, 2016.

For the year ended June 30, 2018, the Board recognized GLI OPEB expense of $3,000. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

DRAFT

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 2,000
Net difference between projected and actual earnings on State GLI OPEB program investments	-	2,000
Changes in assumptions	-	3,000
Changes in proportion		-
Employer contributions subsequent to the measurement date	4,043	-
Total	$ 4,043	$ 7,000

$4,043 reported as deferred outflows of resources related to the GLI OPEB resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year ended June 30:		
2019	$	(1,000)
2020	$	(1,000)
2021	$	(1,000)
2022	$	(1,000)
2023	$	(1,000)
Thereafter	$	(2,000)

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5 percent
Salary increases, including inflation –	
General state employees	3.5 percent – 5.35 percent
Teachers	3.5 percent – 5.95 percent
SPORS employees	3.5 percent – 4.75 percent
VaLORS employees	3.5 percent – 4.75 percent
JRS employees	4.5 percent
Locality – General employees	3.5 percent – 5.35 percent
Locality – Hazardous Duty employees	3.5 percent – 4.75 percent

DRAFT

Investment rate of return	7.0 Percent, net of investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of the OPEB liabilities.

Mortality rates – General State Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP- 2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

Mortality rates – Teachers

Pre-Retirement:

RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:

RP-2014 White Collar Employee Rates to age 49, White Collar Health Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with Scale BB to 2020; 115% of rates for males and females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

Mortality rates – SPORS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience

Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

Mortality rates – VaLORS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP- 2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

Mortality rates – JRS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% compounding increase from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with Scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

Mortality rates – Largest Ten Locality Employers - General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Mortality rates – Non-Largest Ten Locality Employers - General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

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Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post- retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75.
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14 to 15%

Mortality rates – Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

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Mortality rates – Non-Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

Net GLI OPEB Liability

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

Group Life Insurance OPEB Plan Program

Total GLI OPEB Liability	$ 2,942,426

Plan Fiduciary Net Position	1,437,586
Employer's Net GLI OPEB Liability (Asset)	$ 1,504,840

Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	48.86%

The total GLI OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net GLI OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

<u>Long-Term Expected Rate of Return</u>

The long-term expected rate of return on the System's investments was determined using a log- normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of System's investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
	Inflation		2.50%
	* Expected arithmetic nominal return		7.30%

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic

conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

Sensitivity of the Employer's Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate

The following presents the Board's proportionate share of the net GLI OPEB liability using the discount rate of 7.00%, as well as what the employer's proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Board's proportionate share of the Group Life Insurance Program Net OPEB Liability	$78,000	$60,000	$46,000

Group Life Insurance Program Fiduciary Net Position

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

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13. VRS DISBABILITY INSRANCE PROGRAM (OPEB)

Plan Description

All full-time and part-time permanent salaried state employees who are covered under the Virginia Retirement System (VRS), the State Police Officers' Retirement System (SPORS), or the Virginia Law Officers' Retirement System (VaLORS) hired on or after January 1, 1999 are automatically covered by the Disability Insurance Program (VSDP) upon employment. The Disability Insurance Program also covers state employees hired before January 1, 1999 who elected to transfer to VSDP rather than retain their eligibility to be considered for disability retirement. This plan is administered by the Virginia Retirement System (the System), along with pensions and other OBEB plans, for public employer groups in the Commonwealth of Virginia.

The specific information for Disability Insurance Program OPEB, including eligibility, coverage and benefits is set out in the table below:

DISABILITY INSURANCE PROGRAM (VSDP) PLAN PROVISIONS
Eligible Employees The Virginia Sickness and Disability Program (VSDP), also known as the Disability Insurance Trust Fund was established January 1, 1999 to provide short-term and long-term disability benefits for non-work-related and work-related disabilities. Eligible employees are enrolled automatically upon employment. They include: • Full-time and part-time permanent salaried state employees covered under VRS, SPORS and ValORS (members new to VaLORS following its creation on October 1, 1999, have been enrolled since the inception of VSDP). • State employees hired before January 1, 1999, who elected to transfer to VSDP rather than retain their eligibility to be considered for VRS disability retirement. • Public college and university faculty members who elect the VRS defined benefit plan. They may participate in VSDP or their institution's disability program, if offered. If the institution does not offer the program or the faculty member does not make an election, he or she is enrolled in VSDP.
Benefit Amounts The Virginia Sickness and Disability Program (VSDP) provides the following benefits for eligible employees: • **Leave** – Sick, family and personal leave. Eligible leave benefits are paid by the employer. • **Short-Term Disability** – The program provides a short-term disability benefit beginning after a seven-calendar-day waiting period from the first day of disability. The benefit provides income replacement beginning at 100% of the employee's pre-disability income, reducing to 80% and then 60% based on the period of the disability and the length of service of the employee. Short-term disability benefits are paid by the employer. • **Long-Term Disability** – The program provides a long-term disability benefit beginning

after 125 workdays of short-term disability and continuing until the employee reaches his or her normal retirement age. The benefit provides income replacement of 60% of the employee's pre-disability income. If an employee becomes disabled within five years of his or her normal retirement age, the employee will receive up to five years of VSDP benefits, provided he or she remains medically eligible. Long-term disability benefits are paid for by the Virginia Disability Insurance Program (VSDP) OPEB Plan.

- **Income Replacement Adjustment** – The program provides for an income replacement adjustment to 80% for catastrophic conditions.
- **VSDP Long-Term Care Plan** – The program also includes a self-funded long-term care plan that assists with the cost of covered long-term care services.

Disability Insurance Program (VSDP) Plan Notes:

- Employees hired or rehired on or after July 1, 2009, must satisfy eligibility periods before becoming eligible for non-work-related short-term disability benefits and certain income-replacement levels.
- A state employee who is approved for VSDP benefits on or after the date that is five years prior to his or her normal retirement date is eligible for up five years of VSDP benefits. Employees on work-related short-term disability receiving only a workers' compensation payment may be eligible to purchase service credit for this period if retirement contributions are not being withheld from the workers' compensation payment. The rate will be based on 5.00% of the employee's compensation.

Cost-of-Living Adjustment (COLA)

- During periods an employee receives long-term disability benefits, the LTD benefit may be increased annually by an amount recommended by the actuary and approved by the Board.
  - Plan 1 employees vested as of 1/1/2013 – 100% of the VRS Plan 1 COLA (The first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%).
  - Plan 1 employee non-vested as of 1/1/2013, Plan 2 and Hybrid Plan employees – 100% of the VRS Plan 2 and Hybrid COLA (The first 2% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 2%) up to a maximum COLA of 3%).
- For participating full-time employees taking service retirement, the creditable compensation may be increased annually by an amount recommended by the actuary and approved by the Board, from the date of the commencement of the disability to the date of retirement.
  - 100% of the increase in the pay over the previous plan year for continuing VSDP members in the State, SPORS and VaLORS Plans, with a maximum COLA of 4.00%
- For participating full-time employees receiving supplemental (work-related) disability benefits, the creditable compensation may be increased annually by an amount recommended by the actuary and approved by the Board, from the date of the commencement of the disability to the date of retirement
  - 100% of the increase in the pay over the previous plan year for continuing VSDP members in the State, SPORS and VaLORS Plans, with a maximum COLA of 4.00%.

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Contributions

The contribution requirements for the Disability Insurance Program (VSDP) are governed by §51.1-1140 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each employer's contractually required employer contribution rate for the Disability Insurance Program (VSDP) for the year ended June 30, 2018 was 0.66% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits payable during the year, with an adjustment to amortize the accrued OPEB assets. Contributions to the Disability Insurance Program (VSDP) from the Board were $4,672 and $4,580 for the years ended June 30, 2018 and June 30, 2017, respectively.

Disability Insurance Program (VSDP) OPEB Liabilities (Assets), VSDP OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the VSDP OPEB

At June 30, 2018, the Board reported a liability (asset) of ($38,000) for its proportionate share of the Net VSDP OPEB Liability (Asset). The Net VSDP OPEB Liability (Asset) was measured as of June 30, 2017 and the total VSDP OPEB liability used to calculate the Net VSDP OPEB Liability (Asset) was determined by an actuarial valuation as of that date. The Board's proportion of the Net VSDP OPEB Liability (Asset) was based on the Board's actuarially determined employer contributions to the VSDP OPEB plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the Board's proportion was 0.01829% as compared to 0.01883% at June 30, 2016.

For the year ended June 30, 2018, the Board recognized VSDP OPEB expense of $4,000. Since there was a change in proportionate share between measurement dates, a portion of the VSDP OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to the VSDP OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Net difference between projected and actual earnings on VSDP OPEB program investments	-	3,000
Changes in assumptions	-	3,000
Changes in proportion		-
Employer contributions subsequent to the measurement date	4,672	-
Total	$ 4,672	$ 6,000

$4,672 reported as deferred outflows of resources related to the VSDP OPEB resulting from the Board's contributions subsequent to the measurement date will be recognized as an adjustment of the Net VSDP OPEB Liability (Asset) in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the VSDP OPEB will be recognized in VSDP OPEB expense in future reporting periods as follows:

Year ended June 30:		
2019	$	(1,000)
2020	$	(1,000)
2021	$	(1,000)
2022	$	(1,000)
2023	$	(2,000)
Thereafter	$	0

Actuarial Assumptions

The total VSDP OPEB liability was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation		2.5 percent
Salary increases, including Inflation –	General state employees	3.5 percent – 5.35 percent
	SPORS employees	3.5 percent – 4.75
	VaLORS employees	3.5 percent – 4.75 percent
Investment rate of return		7.0 Percent, net of OPEB plan investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of OPEB liabilities.

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Mortality rates – General State Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

Mortality rates – SPORS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

Mortality rates – VaLORS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

Net VSDP OPEB Liability (Asset)

The net OPEB asset (NOA) for the Disability Insurance Program (VSDP) represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOA amounts for the Disability Insurance Program (VSDP) is as follows (amounts expressed in thousands):

Disability Insurance Program

Total VSDP OPEB Liability	$ 237,013
Plan Fiduciary Net Position	442,334
Employer's Net OPEB Liability (Asset)	$ (205,321)
Plan Fiduciary Net Position as a Percentage of the Total VSDP OPEB Liability	186.63%

The total VSDP OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net OPEB asset is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on System investments was determined using a log- normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of VRS System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

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Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
	Inflation		2.50%
	* Expected arithmetic nominal return		7.30%

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total VSDP OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made per the VRS Statutes and that they will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by participating employers to the VSDP OPEB Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the VSDP OPEB Program's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total VSDP OPEB liability.

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Sensitivity of the Board's Proportionate Share of the Net VSDP OPEB Liability (Asset) to Changes in the Discount Rate

The following presents the Board's proportionate share of the net VSDP OPEB liability (asset) using the discount rate of 7.00%, as well as what the Board's proportionate share of the net VSDP OPEB liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Board's proportionate share of the total VSDP Net OPEB Liability (Asset)	($36,000)	($38,000)	($41,000)

VSDP OPEB Fiduciary Net Position

Detailed information about the Disability Insurance Program (VSDP) Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

14. PRE-MEDICARE RETIREE HEALTHCARE (OPEB)

The Commonwealth provides a healthcare plan established by Title 2.2, Chapter 28 of the *Code of Virginia* for retirees who are not yet eligible to participate in Medicare. For a retiree to participate in the Plan, the participant must be eligible for a monthly annuity from the VRS or a periodic benefit from one of the qualified Optional Retirement Plan (ORP) vendors, and:

- be receiving (not deferring) the annuity or periodic benefit immediately upon retirement;
- have his or her last employer before retirement be the state;
- be eligible for coverage as an active employee in the State Health Benefits Program until his or her retirement date (not including Extended Coverage); and,
- have submitted within 31 days of his or her retirement date an Enrollment Form to his or her Benefits Administrator to enroll.

The employer does not pay a portion of the retirees' healthcare premium; however, since both active employees and retirees are included in the same pool for purposes of determining health insurance rates, this generally results in a higher rate for active employees. Therefore, the employer effectively subsidizes the costs of the participating retirees' healthcare through payment of the employer's portion of the premiums for active employees.

This fund is reported as part of the Commonwealth's Healthcare Internal Service Fund. Benefit payments are recognized when due and payable in accordance with the benefit terms. Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan that is treated like a cost-sharing plan for financial reporting purposes, and is administered by the Department of Human Resource Management. There were approximately 5,600 retirees and 91,000 active employees in the program in fiscal year 2017. There are no inactive employees entitled to future benefits who are not currently receiving benefits. There are no assets accumulated in a trust to pay benefits.

Actuarial Assumptions and Methods

The total Pre-Medicare Retiree Healthcare OPEB liability was based on an actuarial valuation with a valuation date of June 30, 2017. The Department of Human Resource Management selected the economic, demographic and healthcare claim cost assumptions. The actuary provided guidance with respect to these assumptions. Initial healthcare costs trend rates used were 8.62 percent for medical and pharmacy and 4.0 percent for dental. The ultimate trend rates used were 5.0 percent for medical and pharmacy and 4.0 percent for dental.

Valuation Date	Actuarially determined contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported.
Measurement Date	June 30, 2017 (one year prior to the end of the fiscal year)
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level dollar, Closed
Effective Amortization Period	6.43 years
Discount Rate	3.58%
Projected Salary Increases	4.0%
Medical Trend Under 65	

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	Medical & Rx: 8.62% to 5.00% Dental: 4.00% Before reflecting Excise tax
Year of Ultimate Trend	2025
Mortality	Mortality rates vary by participant status
Pre-Retirement:	RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with Scale BB to 2020; males setback 1 year, 85% of rates; females setback 1 year
Post-Retirement	RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females setback 1 year with 1.5% increase compounded from ages 70 to 85
Post-Disablement:	RP-2014 Disabled Mortality Rates projected with Scale BB to 2020; males 115% of rates; females 130% of rates

The discount rate was based on the Bond Buyers GO 20 Municipal Bond Index as of the measurement date which is June 30, 2017.

<u>Changes of Assumptions:</u>

The following assumptions were updated since the July 1, 2016 valuation based on the results of a Virginia Retirement System actuarial experience study performed for the period of July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Mortality rates -updated to a more current mortality table – RP-2014 projected to 2020
- Retirement rates - lowered rates at older ages and changed final retirement from 70 to 75
- Withdrawal rates - adjusted rates to better fit experience at each year age and service through 9 years of service

The discount rate was increased from 2.85% to 3.58% based on the Bond Buyers GO 20 Municipal Bond Index. Spousal coverage was reduced from 70% to 50% based on a blend of recent spousal

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coverage election rates and the prior year assumption. Based on the 2017 census, new retirees since 1/1/2015 have chosen to cover their spouses approximately 20% of the time. However, active employees cover their spouses at a rate close to 53%.

Pre-Medicare Retiree Healthcare OPEB Liabilities, OPEB Expense, and Deferred Outflow of Resources and Deferred Inflows of Resources

At June 30, 2018, the Board reported a liability of $175,370 for its proportionate share of the collective total Pre-Medicare Retiree Healthcare OPEB liability of $1.3 billion. The Pre-Medicare Retiree Healthcare OPEB liability was measured as of June 30, 2017 and was determined by an actuarial valuation as of June 30, 2017. The covered employer's proportion of the Pre-Medicare Retiree Healthcare OPEB liability was based on each employer's healthcare premium contributions as a percentage of the total employer's healthcare premium contributions for all participating employers. At June 30, 2017, the participating employer's proportion was 0.01350% as compared to 0.01072% at June 30, 2016. For the year ended June 30, 2018, the participating employer recognized Pre-Medicare Retiree Healthcare OPEB expense of $20,760.

At June 30, 2018, the employer reported deferred outflows or resources and deferred inflows of resources related to Pre-Medicare Retiree Healthcare from the following sources:

	Deferred Outflows	Deferred Inflows
Difference between actual and expected experience	$ -	$ 7,054
Changes in assumptions	-	37,179
Changes in proportion	36,753	-
Subtotal	36,753	44,233
Amounts associated with transactions subsequent to the measurement date	4,651	-
Total	$ 41,404	$ 44,233

$ 4,651 reported as deferred outflows of resources related to the Pre-Medicare Retiree Healthcare OPEB resulting from amounts associated with transactions subsequent to the measurement date will be recognized as a reduction of the total OPEB Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pre- Medicare Retiree Healthcare OPEB will be recognized in the Pre-Medicare Retiree Healthcare OPEB expense as follows:

Year ended June 30:		
2019	$	(1,378)
2020	$	(1,378)
2021	$	(1,378)
2022	$	(1,378)
2023	$	(1,378)
Thereafter	$	(590)

Sensitivity of the Employer's Proportionate Share of the OPEB Liability to Changes in the Discount Rate

The following presents the employer's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability using the discount rate of 3.58%, as well as what the employer's proportionate share of the Pre- Medicare Retiree Healthcare OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.58%) or one percentage point higher (4.58%) than the current rate:

	1% Decrease (2.58%)	Current Rate (3.58%)	1% Increase (4.58%)
OPEB Liability	$187,861	$175,370	$163,402

Sensitivity of the Employer's Proportionate Share of the OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the employer's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability using healthcare cost trend rate of 8.62% decreasing to 5%, as well as what the employer's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower (7.62% decreasing to 4.0%) or one percentage point higher (9.62% decreasing to 6.0%) than the current rate:

DRAFT

	1% Decrease (7.62% decreasing to 4.00%)	Trend Rate (8.62% decreasing to 5.00%)	1% Increase (9.62% decreasing to 6.00%)
OPEB Liability	$156,035	$175,370	$198,037

15. RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Board participates in insurance plans maintained by the Commonwealth. The state employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, faithful performance of duty bond, and automobile plans. The Board pays premiums to each of these Departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth's Comprehensive Annual Financial Report.

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REQUIRED SUPPLEMENTARY INFORMATION

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Schedule of Employer's Share of Net Pension Liability
VRS State Employee Retirement Plan

Year Ended June 30,*	2018	2017	2016	2015
Employer's proportion of the net pension liability	0.01833%	0.01759%	0.01669%	0.01498%
Employer's proportionate share of the net pension liability	$1,068,000	$1,159,000	$1,022,000	$839,000
Employer's covered payroll	$739,906	$695,362	$644,621	$578,909
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	144.34%	166.68%	158.54%	144.93%
Plan fiduciary net position as a percentage of the total pension liability	75.33%	71.29%	72.81%	74.28%

Schedule is intended to show information for 10 years. Since 2018 is the fourth year for this presentation, only three additional years of data is available. However, additional years will be included as they become available.

*The amounts presented have a measurement date as of the previous fiscal year end.

DRAFT

Virginia Board of Accountancy

Schedule of Employer Contributions
VRS State Employee Retirement Plan

Year Ended June 30,		**2018**		**2017**		**2016**		**2015**
Contractually required contribution	$	104,090	$	99,965	$	97,505	$	79,482
Contributions in relation to the contractually required contribution		104,090		99,965		97,505		79,461
Contribution deficiency (excess)	$	-	$	-	$	-	$	21
Employer's covered payroll	$	778,755	$	739,906	$	695,362	$	644,621
Contributions as a percentage covered payroll		13.37%		13.51%		14.02%		12.33%

Schedule is intended to show information for 10 years. Since 2018 is the fourth year for this presentation, only three additional years of data is available. However, additional years will be included as they become available.

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VRS State Employee Retirement Plan
Notes to Required Supplementary Information for the Year Ended June 30, 2018

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is still a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 are not material.

Changes of assumptions - The following changes in actuarial assumptions were made for the VRS - State Employee Retirement Plan effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 25%

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Virginia Board of Accountancy

Schedule of Employer's Share of Net OPEB Liability
Health Insurance Credit Program (HIC)

Year Ended June 30, 2018*	**2018**
Employer's proportion of the Net HIC OPEB Liability (Asset)	0.01139%
Employer's proportionate share of the Net HIC OPEB Liability (Asset)	$104,000
Employer's covered payroll	$739,907
Employer's proportionate share of the Net HIC OPEB Liability (Asset) as a percentage of its covered payroll	14.06%
Plan fiduciary net position as a percentage of the total HIC OPEB Liability	8.03%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.

*The amounts presented have a measurement date as of the previous fiscal year end.

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Virginia Board of Accountancy

Schedule of Employer Contributions
Health Insurance Credit Program (HIC)

Year Ended June 30, 2018	**2018**
Contractually required contribution	$ 9,103
Contributions in relation to contractually required contribution	9,103
Contribution deficiency (excess)	$ -
Employer's covered payroll	$ 778,755
Contributions as a percentage covered payroll	1.17%

Schedule is intended to show information for 10 years. Since 2018 is the fist year for this presentation, only one year of data is available. However, additional years will be included as they become available.

DRAFT

Health Insurance Credit Program (HIC)
Notes to Required Supplementary Information for the Year Ended June 30, 2018

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

General State Employees:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP- 2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

SPORS Employees:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

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VaLORS Employees:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

JRS Employees:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

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Virginia Board of Accountancy

Schedule of Employer's Share of Net OPEB Liability
Group Life Insurance Program (GLI)

Year Ended June 30, 2018*	**2018**
Employer's proportion of the Net GLI OPEB Liability (Asset)	0.00399%
Employer's proportionate share of the Net GLI OPEB Liability (Asset)	$60,000
Employer's covered payroll	$739,907
Employer's proportionate share of the Net GLI OPEB Liability (Asset) as a percentage of its covered payroll	8.11%
Plan fiduciary net position as a percentage of the total GLI OPEB Liability	48.86%

Schedule is intended to show information for 10 years. Since 2018 is the fist year for this presentation, only one year of data is available. However, additional years will be included as they become available.

*The amounts presented have a measurement date as of the previous fiscal year end.

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Virginia Board of Accountancy

Schedule of Employer Contributions
Group Life Insurance Program (GLI)

Year Ended June 30, 2018	2018
Contractually required contribution	$ 4,043
Contributions in relation to contractually required contribution	4,043
Contribution deficiency (excess)	$ -
Employer's covered payroll	$ 778,755
Contributions as a percentage covered payroll	0.52%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.

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Group Life Insurance Program (GLI)
Notes to Required Supplementary Information for the Year Ended June 30, 2018

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

General State Employees:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

Teachers:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

SPORS Employees:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

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Line of Duty Disability	Increased rate from 60% to 85%

VaLORS Employees:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

JRS Employees:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

Largest Ten Locality Employers - General Employees:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Non-Largest Ten Locality Employers - General Employees:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75.

DRAFT

Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14 to 15%

Largest Ten Locality Employers – Hazardous Duty Employees:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Non-Largest Ten Locality Employers – Hazardous Duty Employees:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

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Virginia Board of Accountancy

Schedule of Employer's Share of Net OPEB Liability
Disability Insurance Program (VSDP)

Year Ended June 30, 2018*	2018
Employer's proportion of the Net VSDP OPEB Liability (Asset)	0.01829%
Employer's proportionate share of the Net VSDP OPEB Liability (Asset)	$38,000
Employer's covered payroll	$689,058
Employer's proportionate share of the Net VSDP OPEB Liability (Asset) as a percentage of its covered payroll	5.51%
Plan fiduciary net position as a percentage of the total GLI OPEB Liability	186.63%

Schedule is intended to show information for 10 years. Since 2018 is the fist year for this presentation, only one year of data is available. However, additional years will be included as they become available.

*The amounts presented have a measurement date as of the previous fiscal year end.

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Virginia Board of Accountancy

Schedule of Employer Contributions
Disability Insurance Program (VSDP)

Year Ended June 30, 2018	**2018**
Contractually required contribution	$ 4,672
Contributions in relation to contractually required contribution	4,672
Contribution deficiency (excess)	$ -
Employer's covered payroll	$ 715,906
Contributions as a percentage covered payroll	0.65%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.

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Disability Insurance Program (VSDP)
Notes to Required Supplementary Information for the Year Ended June 30, 2018

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

General State Employees:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

SPORS Employees:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

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VaLORS Employees:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

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Virginia Board of Accountancy

Schedule of Employer's Share of Net OPEB Liability
Pre-Medicare Retiree Healthcare Program

Year Ended June 30, 2018*	2018
Employer's proportion of the Net VSDP OPEB Liability (Asset)	0.01350%
Employer's proportionate share of the Net VSDP OPEB Liability (Asset)	$175,370
Employer's covered payroll	$745,758
Employer's proportionate share of the Net VSDP OPEB Liability (Asset) as a percentage of its covered payroll	23.52%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.

*The amounts presented have a measurement date as of the previous fiscal year end.

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Disability Insurance Program (VSDP)
Notes to Required Supplementary Information for the Year Ended June 30, 2018

There are no assets accumulated in a trust to pay related benefits.

Changes of benefit terms – There have been no changes to the benefit provisions since the prior actuarial valuation.

Changes of assumptions – The following assumptions were updated since the July 1, 2016 valuation based on the results of a Virginia Retirement System actuarial experience study performed for the period of July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Mortality rates – updated to a more current mortality table – RP-2014 projected to 2020
- Retirement rates – lowered rates at older ages and changed final retirement from 70 to 75
- Withdrawal rates – adjusted rates to better fit experience at each year age and service through 9 years of service

The discount rate was increased from 2.85% to 3.58% based on the Bond Buyers GO 20 Municipal Bond Index and spousal coverage was reduced from 70% to 50% based on a blend of recent spousal coverage election rates and the prior year assumption. Based on the 2017 census, new retirees since 1/1/2015 have chosen to cover their spouses approximately 20% of the time. However, active employees cover their spouses at a rate close to 53%.

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VIRGINIA BOARD OF ACCOUNTANCY

BOARD MEMBERSHIP
As of June 30, 2018

The Board is comprised of five Certified Public Accountants who hold Virginia licenses, one educator in the field of accountancy who holds a Virginia license, and one public member. The Governor appoints each member to a term of four years and no member may serve more than two consecutive terms.

Matthew P. Bosher, Esq.
Chair

Susan Quaintance Ferguson, CPA
Vice Chair

D. Brian Carson, CPA, CGFM
Laurie A. Warwick, CPA
Andrea M. Kilmer, CPA, CFF, CGMA
Stephanie S. Saunders, CPA
William R. Brown, CPA

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Memorandum of Agreement (MOA) between
The Virginia Board of Accountancy and
FirstName MidName LastName

This AGREEMENT by and between FirstName MidName LastName (hereinafter "LastName") and the Virginia Board of Accountancy (hereinafter "VBOA") is for assistance rendered as an Informal Fact Finding ("IFF") Conference Presiding Officer and to serve on the Enforcement Committee of the Board.

LastName agrees to provide assistance to the VBOA in the following areas:

1. Presiding Officer - LastName shall provide the VBOA assistance as a Presiding Officer designated by the Board Chair to preside over selected enforcement-related administrative proceedings.

2. Enforcement Committee – LastName shall provide the VBOA assistance as a member of the Enforcement Committee to review enforcement cases and to make determinations regarding cases.

3. IFF Conferences - The Board Chair, in consultation with the Executive Director, will assign the Presiding Officer to appropriately administer IFF Conferences and to serve on the Enforcement Committee of the Board. The full Board will provide guidance on the types of cases to be heard.

4. Administration - Responsibilities of the Presiding Officer and/or Enforcement Committee as they relate to the enforcement-related administrative proceedings shall be communicated to LastName by the Board Chair, in consultation with the Executive Director and/or Enforcement Director, with authorization provided by the Code of Virginia, federal and state regulations, and policies/procedures established by the VBOA.

5. Performance – Performance as a Presiding Officer and member of the Enforcement Committee requires agreement to maintain confidentiality with respect to all reports, documentation, informational materials, general information, names of any and all individuals/firms and statements that receive consideration during the course of providing assistance to the VBOA. All documentation furnished for consideration to LastName during his performance of this agreement shall be returned to the VBOA within a reasonable time after the administrative proceeding.

6. Disqualification - A Presiding Officer is subject to disqualification for any factor that would cause a reasonable person to question the impartiality of the Presiding Officer. If

a Respondent were to object to the presence of a Presiding Officer in an IFF conference, that Presiding Officer would recuse him/herself, if it is reasonable to do so to avoid any semblance of partiality or bias.

7. Travel Expense Reimbursement - LastName shall be reimbursed for pre-approved travel expenses in accordance with state travel regulations.

Period of Agreement and Amendments

This Agreement shall cover the period between Start Date and End Date. This Agreement shall continue in force until terminated be either of the parties in writing. Amendments to this Agreement shall become effective upon written approval by both parties.

EXECUTED AND AGREED ON THE DATES SET FORTH BELOW.

FirstName MidName LastName
Street Address
City, ST #####
Tel: (###) ###-####

Mary T. Charity, Acting Executive Director
Virginia Board of Accountancy
9960 Mayland Drive, Suite 402
Henrico, VA 23233
Tel: (804) 367-8540
Fax: (804) 527-4409

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FirstName MidNameLastName

Date: ________________________________

____
Mary T. Charity

Date: ________________________________